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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	For the year ended 31 December			Percentage Change
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Change <i>RMB'000</i>	
Revenue	917,355	640,533	276,822	43.2%
Gross Profit	376,315	269,050	107,265	39.9%
Profit for the year	269,460	201,179	68,281	33.9%
Adjusted Net Profit (<i>Note</i>)	264,965	187,162	77,803	41.6%
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	
Basic	12.94 cents	11.00 cents	1.94 cents	17.6%
Diluted	12.94 cents	11.00 cents	1.94 cents	17.6%
	<i>HKD</i>	<i>HKD</i>	<i>HKD</i>	
Final dividend per Share	4.10 cents	3.26 cents	0.84 cents	25.8%
Dividend payout ratio	28.9%	29.0%	–	-0.1p.p

Note: The Company defined its adjusted net profit as its profit for the year after adjusting for those items which were not indicative of the Company's operating performances, mainly including the (i) listing expense recorded in administrative expenses amounted to nil and RMB21.1 million, and (ii) foreign exchange gains, net recorded in other income and gains amounted to RMB4.5 million and RMB35.2 million for the year ended 31 December 2019 and the year ended 31 December 2018, respectively.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board of Directors of Tianli Education International Holdings Limited is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	917,355	640,533
Cost of sales		(541,040)	(371,483)
Gross profit		376,315	269,050
Other income and gains	5	29,869	50,663
Selling and distribution expenses		(23,428)	(11,309)
Administrative expenses		(90,836)	(87,552)
Other expenses		(4,489)	(2,059)
Finance costs	6	(12,604)	(17,606)
Share of profit of an associate		1,514	1,221
PROFIT BEFORE TAX	7	276,341	202,408
Income tax expense	8	(6,881)	(1,229)
PROFIT FOR THE YEAR		269,460	201,179
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:			
Exchange differences related to translation of foreign operation		151	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		269,611	201,179
Profit attributable to:			
Owners of the Company		264,946	194,733
Non-controlling interests		4,514	6,446
		269,460	201,179
Total comprehensive income attributable to:			
Owners of the Company		265,097	194,733
Non-controlling interests		4,514	6,446
		269,611	201,179
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic		RMB12.94 cents	RMB11.00 cents
Diluted		RMB12.94 cents	RMB11.00 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	2,999,396	1,898,602
Right-of-use assets	<i>12(b)</i>	743,153	–
Prepaid land lease payments	<i>12(a)</i>	–	217,207
Goodwill	<i>13</i>	7,572	7,572
Intangible assets		2,645	460
Investment in an associate		6,621	5,107
Prepayments, deposits and other receivables	<i>15</i>	253,784	365,524
Total non-current assets		4,013,171	2,494,472
CURRENT ASSETS			
Inventories		3,542	3,982
Trade receivables	<i>14</i>	1,106	1,037
Prepayments, deposits and other receivables	<i>15</i>	69,363	42,943
Amounts due from related parties		202	4,557
Financial assets at fair value through profit or loss		4,200	15,799
Cash and cash equivalents		631,429	1,232,997
Total current assets		709,842	1,301,315
CURRENT LIABILITIES			
Trade payables	<i>16</i>	22,318	13,212
Other payables and accruals	<i>17</i>	254,476	165,800
Contract liabilities		537,573	340,875
Interest-bearing bank loans		184,000	87,851
Amounts due to a related party		217,596	300,577
Tax payable		2,846	2,490
Lease liabilities	<i>12(c)</i>	5,669	–
Deferred income		152,737	109,112
Total current liabilities		1,377,215	1,019,917
NET CURRENT (LIABILITIES)/ASSETS	<i>2.1</i>	(667,373)	281,398
TOTAL ASSETS LESS CURRENT LIABILITIES		3,345,798	2,775,870

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Contract liabilities		50,424	52,449
Lease liabilities	<i>12(c)</i>	88,325	—
Deferred income		450,642	60,682
Interest-bearing bank loans		275,000	370,777
Total non-current liabilities		864,391	483,908
Net assets		2,481,407	2,291,962
EQUITY			
Equity attributable to owners of the Company			
Issued capital		176,375	176,375
Reserves		2,262,608	2,082,163
		2,438,983	2,258,538
Non-controlling interests		42,424	33,424
Total equity		2,481,407	2,291,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. CORPORATE AND GROUP INFORMATION

Tianli Education International Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 24 January 2017 as an exempted company with limited liability 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 year ended 31 December 2019, 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 year.

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”).

Pursuant to the group reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History and Reorganisation” in the Prospectus dated 28 June 2018 for the public listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (“Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 15 December 2017.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”) and International Accounting Standards (“IASs”) and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

As at 31 December 2019, the Group recorded net current liabilities of approximately RMB667,373,000. Included therein, the Group recorded current portion of contract liabilities and deferred income of RMB537,573,000 and RMB152,737,000 as at 31 December 2019, respectively.

In view of the net current liabilities 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 Financial Information on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investments retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

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 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the adoption of IFRS 16, the adoption of the above, new interpretation and amendments to IFRSs has had no significant financial effect on the financial position or performance of the Group. 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. 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 has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

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 other premises. 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 leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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:

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

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
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)
Increase in total assets	56,792
Liabilities	
Increase in lease liabilities	56,792

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

	RMB'000
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	56,792
Lease liabilities as at 1 January 2019	56,792

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i> ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ²

- 1 Effective for annual periods beginning on or after 1 January 2020
- 2 Effective for annual periods beginning on or after 1 January 2022
- 3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below:

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in an associate.

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Merger accounting for business combination under common control

The consolidated financial statements include the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and structures	1.9-2.4%
Leasehold improvements	20%
Furniture and fixtures	19%
Devices and equipment	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Purchased computer software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of 10 years.

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40-50 years
Buildings and other premises	2-20 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) 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 (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group elected to present lease liabilities separately in the consolidated statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor - operating leases

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the which they are earned.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as “Other income” in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, amounts due to related parties, lease liabilities and interest-bearing bank loans.

Subsequent measurement

The subsequent measurement of the Group's financial liabilities is as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, the Group's financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in “Finance costs” in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised on a systematic basis over the periods as deduction from the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Tuition and boarding fees received from students are generally paid in advance prior to the beginning of each academic year, and are initially recorded as “Contract liabilities”. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as “Contract liabilities” and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year. The academic year of the Group’s schools is generally from September to June of the following year.

Tuition fees from kindergartens and tutoring schools are generally received in advance at the beginning of every term and on a lump-sum basis. Revenue is recognised over the scheduled period of a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Management fees are received from our entrusted schools in connection with the Group’s management services. Franchise fees are received from the Group’s franchisees in connection with the educational consulting services. Revenues from the provision of management and franchise services are recognised over time upon the delivery of the relevant services because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from meal catering services provided at the on-school canteens is recognised at a point in time when control of goods has been transferred, being the time when the goods are accepted by the customers.

Income from ancillary services, such as the provision of child-care and school bus services, is recognised in the period in which the services are rendered.

Other income

Interest income from a financial asset is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognised on a time proportion basis over the lease terms.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is measured at the market value of the shares (less subscription price, if any), adjusted for the exclusion of expected dividends to be received in the vesting period.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding non-vested ordinary shares is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in Mainland China. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to profit or loss as they become payable in accordance with the rules of the defined contribution retirement benefit plans.

Housing fund

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre in Mainland China are charged to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends is disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Structured Contracts

The PRC Operating Entities are engaged in the provision of education services. Under the scope of “Special Administration Measures (Negative List) for Access of Foreign Investment (2019 version)”, foreign investors are prohibited or restricted to invest in such business. The wholly-owned subsidiary of the Company, Tibet Yongsi Technology Company Limited (“Tibet Yongsi”), has entered into structured contracts with, among others, the PRC Operating Entities and their respective equity holders (“Structured Contracts”). The Structured Contracts enable Tibet Yongsi to exercise effective control over the PRC Operating Entities and obtain substantially all economic benefits of the PRC operating Entities. Accordingly, the Company regards the PRC Operating Entities as indirect subsidiaries for the purpose of the consolidated financial statements and the PRC Operating Entities are consolidated in the consolidated financial statements continuously.

The Company does not have any equity interest in the PRC Operating Entities. However, as a result of the Structured Contracts, the Company has power over the PRC Operating Entities, has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities and is therefore considered to have control over these entities. Consequently, the Company regards the PRC Operating Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the PRC Operating Entities in the financial statements during the year.

Income tax

Significant judgement is required in interpreting the relevant tax rules and regulations so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact the tax expense in the period that such determination is made. Further details of current and deferred tax are set out in note 8 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB7,572,000 (2018: RMB7,572,000). Further details are given in note 13 to the financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and the provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of the year based on changes in circumstances. The carrying amount of property, plant and equipment at 31 December 2019 was RMB2,999,396,000 (2018: RMB1,898,602,000).

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of education services in the PRC.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the Directors reviewed the financial results of the Group as a whole. On this basis, the Group has determined that it only has one operating segment which is engaged in the provision of education services. Therefore, no further information about the operating segment is presented other than the entity-wide disclosures.

Entity-wide disclosures

Geographical information

During the year ended 31 December 2019, the Group operated within one geographical location because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

No revenue from a single customer amounted to 10% or more of the total revenue of the Group during the years ended 31 December 2019 and 2018.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the values of services rendered after deducting scholarships and refunds during the year.

An analysis of revenue is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Tuition fees	657,533	456,244
Boarding fees	72,380	54,167
School canteen operations	183,898	127,639
Management and franchise fees	3,544	2,483
Total revenue	917,355	640,533

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Timing of revenue recognition		
Goods transferred at a point in time	183,898	127,639
Services transferred over time	733,457	512,894
Total revenue from contracts with customers	917,355	640,533

(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 on-school canteen operations is satisfied at the point in time when the control of goods has been 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 amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within one year	537,573	340,875
After one year	50,424	52,449
	587,997	393,324

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised after one year relate to teaching services that are to be satisfied within 27 years from 31 December 2019. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised within one year.

An analysis of other income and gains is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Bank interest income	12,158	9,886
Gains on disposal of financial assets at fair value through profit or loss	6,879	2,002
Other service income	4,787	2,446
Foreign exchange gains, net	4,495	35,151
Rental income	1,106	808
Gains on disposal of items of property, plant and equipment, net	–	4
Others	444	366
Total other income and gains	29,869	50,663

6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Interest on bank loans	30,284	33,690
Less: Interest capitalised (<i>note 11(b)</i>)	(23,716)	(16,084)
	6,568	17,606
Interest on lease liabilities	6,036	–
	12,604	17,606
Interest rate of borrowing costs capitalised (%)	6.18-7.13	6.18-7.13

7. PROFIT BEFORE TAX

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

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
Cost of inventories sold		108,728	73,772
Cost of services provided		432,312	297,711
Employee benefit expense (excluding Directors' and chief executive's remuneration):			
Wages and salaries		416,632	259,635
Pension scheme contributions (defined contribution scheme)		39,548	32,748
Welfare		44,787	32,806
Housing fund (defined contribution scheme)		14,665	12,235
Less: Government grants released		(149,925)	(73,441)
Subsidies received		(11,083)	(5,742)
		354,624	258,241
Depreciation*	11	71,860	46,054
Recognition of prepaid land lease payments*	12(a)	–	4,710
Depreciation of right-of-use assets*	12(b)	21,109	–
Amortisation of intangible assets		142	29
Loss/(gain) on disposal of items of property, plant and equipment, net		61	(4)
Auditor's remuneration		4,269	3,770
Minimum lease payments under operating leases		–	3,612
Lease payments not included in the measurement of lease liabilities	12(d)	1,099	–
Bank interest income		(12,158)	(9,886)
Listing expenses		–	21,134
Gains on disposal of financial assets at fair value through profit or loss		(6,879)	(2,002)
Foreign exchange gains, net		(4,495)	(35,151)
Rental income		(1,106)	(808)

* The depreciation of items of property, plant and equipment and depreciation of right-of-use assets of RMB66,956,000 and RMB19,776,000, respectively (2018: Depreciation of items of property, plant and equipment and recognition of prepaid land lease payments of RMB43,371,000 and RMB4,710,000, respectively) are recorded in "Cost of sales" in profit or loss.

8. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The applicable corporate income tax ("CIT") rate for Hong Kong incorporated subsidiary was 16.5% during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from for earned in Hong Kong during the year.

Pursuant to the PRC Income Tax Law and the respective regulations, except for Tibet Yongxi (see note 8(b) below), all the Group's non-school subsidiaries established in the PRC were subject to the PRC CIT at a rate of 25% during the year.

In accordance with the historical tax returns filed with the relevant tax authorities and the confirmations obtained therefrom of certain schools engaged in the provision of formal education services, except for the tutoring schools and certain kindergartens, there was no corporate income tax imposed on the Group's schools in respect of the education services provided. As a result, no income tax expense was recognised for the income generated from the provision of formal educational services during the year.

Tutoring schools and certain kindergartens of the Group which provide non-academic and non-formal educational services are subject to corporate income tax at a rate of 25%.

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 year:

	2019 RMB'000	2018 RMB'000
Current – Mainland China		
Charge for the year	1,392	599
Under-provision in prior years	5,489	630
Total tax charge for the year	6,881	1,229

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
Profit before tax		276,341	202,408
Less: Non-assessable gains generated by the Company	<i>(a)</i>	(21,429)	(15,604)
Profit before tax generated by subsidiaries in Hong Kong and Mainland China		254,912	186,804
Tax at the applicable tax rates:			
16.5%		(2,237)	357
25%		67,117	46,160
Lower tax rates enacted by local authorities	<i>(b)</i>	(2,074)	(687)
Profits arising from schools not subject to tax		(77,953)	(50,766)
Loss arising from schools not deductible for tax		2,841	1,445
Adjustments in respect of current tax of previous years		5,489	630
Profits attributable to an associate		(379)	(305)
Income not subject to tax		–	(357)
Expenses not deductible for tax		100	280
Tax loss not recognised		13,977	4,472
Tax charge at the Group's effective rate		6,881	1,229

Notes:

- (a) Gains generated by the Company mainly consisted of foreign exchange gains, which are not subject to tax pursuant to the rules and regulations of the Cayman Islands.
- (b) During the year, Tibet Yongshi was entitled to a preferential the PRC CIT rate of 15% as its business scope falls within the scope of encouraging education industry under “Western Development Policy”.

Kinderworld Kindergarten and tutoring schools are qualifying entities under the preferential income tax reduction policy for small-scaled minimal profit enterprises. Under the preferential tax policy, the first RMB1 million of taxable income of these schools is taxed at 5% and the taxable income within RMB1 million and RMB3 million is taxed at 10%.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As at 31 December 2019, the aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB617,022,000 (2018: RMB367,253,000).

As at 31 December 2019, the Group has tax losses arising in Mainland China of RMB98,254,000 (2018: RMB42,346,000), which will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The share of tax attributable to an associate amounting to RMB505,000 for the year ended 31 December 2019 (2018: RMB435,000) is included in "Share of profit of an associate" in profit or loss.

9. DIVIDEND

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Proposed final – HK4.10 cents (equivalent to approximately RMB3.75 cents) (2018: HK3.26 cents (equivalent to approximately RMB2.80 cents)) per ordinary share	<u>77,756</u>	<u>59,313</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the shares repurchased under the share award scheme during the year (2018: Weighted average number of ordinary shares in issue during the year ended 31 December 2018, as adjusted to reflect the ordinary shares to be issued by way of capitalisation issue).

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares under the share award plan.

The calculations of basic and diluted earnings per share are based on:

	2019 RMB'000	2018 <i>RMB'000</i>
Earnings		
Profit attributable to the ordinary equity holders	264,946	194,733
	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue	2,075,000,000	273,402,740
Effect of weighted average number of ordinary shares repurchased under the share award scheme	(28,045,000)	–
Effect of ordinary shares to be issued credited as fully paid by way of capitalisation issue	–	1,496,200,000
Adjusted weighted average number of ordinary shares used in the basic earnings per share calculation	2,046,955,000	1,769,602,740
Effect of dilution:		
Weighted average number of unvested ordinary shares granted under the share award plan	360,000	–
Adjusted weighted average number of ordinary shares used in the diluted earnings per share calculation	2,047,315,000	1,769,602,740

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2018 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during the year ended 31 December 2018.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Devices and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2019						
As at 1 January 2019:						
Cost	1,503,444	92,342	22,338	39,292	392,893	2,050,309
Accumulated depreciation	(90,503)	(35,428)	(7,982)	(17,794)	–	(151,707)
Net carrying amount	<u>1,412,941</u>	<u>56,914</u>	<u>14,356</u>	<u>21,498</u>	<u>392,893</u>	<u>1,898,602</u>
As at 1 January 2019, net of accumulated depreciation	1,412,941	56,914	14,356	21,498	392,893	1,898,602
Additions	1,747	36,786	7,654	25,624	1,101,329	1,173,140
Disposals	–	(422)	(1)	(63)	–	(486)
Depreciation provided during the year (<i>note 7</i>)	(37,909)	(19,759)	(6,519)	(7,673)	–	(71,860)
Transfers	1,243,615	14,698	173	6,570	(1,265,056)	–
As at 31 December 2019, net of accumulated depreciation	<u>2,620,394</u>	<u>88,217</u>	<u>15,663</u>	<u>45,956</u>	<u>229,166</u>	<u>2,999,396</u>
As at 31 December 2019:						
Cost	2,748,806	142,854	29,890	70,982	229,166	3,221,698
Accumulated depreciation	(128,412)	(54,637)	(14,227)	(25,026)	–	(222,302)
Net carrying amount	<u>2,620,394</u>	<u>88,217</u>	<u>15,663</u>	<u>45,956</u>	<u>229,166</u>	<u>2,999,396</u>

	Buildings and structures <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Devices and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2018						
As at 1 January 2018:						
Cost	1,289,941	73,375	6,969	28,512	3,685	1,402,482
Accumulated depreciation	(66,617)	(23,087)	(2,785)	(13,684)	–	(106,173)
Net carrying amount	<u>1,223,324</u>	<u>50,288</u>	<u>4,184</u>	<u>14,828</u>	<u>3,685</u>	<u>1,296,309</u>
As at 1 January 2018, net of accumulated depreciation	1,223,324	50,288	4,184	14,828	3,685	1,296,309
Additions	419	16,675	15,369	11,092	605,091	648,646
Disposals	–	(283)	–	(16)	–	(299)
Depreciation provided during the year (<i>note 7</i>)	(23,886)	(12,565)	(5,197)	(4,406)	–	(46,054)
Transfers	<u>213,084</u>	<u>2,799</u>	<u>–</u>	<u>–</u>	<u>(215,883)</u>	<u>–</u>
As at 31 December 2018, net of accumulated depreciation	<u>1,412,941</u>	<u>56,914</u>	<u>14,356</u>	<u>21,498</u>	<u>392,893</u>	<u>1,898,602</u>
As at 31 December 2018:						
Cost	1,503,444	92,342	22,338	39,292	392,893	2,050,309
Accumulated depreciation	(90,503)	(35,428)	(7,982)	(17,794)	–	(151,707)
Net carrying amount	<u>1,412,941</u>	<u>56,914</u>	<u>14,356</u>	<u>21,498</u>	<u>392,893</u>	<u>1,898,602</u>

Notes:

- (a) As at 31 December 2019, the Group was in the process of obtaining the relevant property ownership certificates for certain buildings with a net carrying amount of approximately RMB1,719,422,000 (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 year ended 31 December 2019 amounted to RMB23,716,000 (2018: RMB16,084,000) (note 6).

12. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and other premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings and other premises generally have lease terms between 2 and 20 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	<i>RMB'000</i>
Carrying amount at 1 January 2018	210,923
Additions during the year	135,310
Offset with government grants received	(119,355)
Amortisation during the year	(4,710)
Carrying amount at 31 December 2018	222,168
Less: Current portion included in prepayments, deposits and other receivables	(4,961)
	<u>217,207</u>

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings and other premises <i>RMB'000</i>	Prepaid land lease payments <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2019	56,792	222,168	278,960
Additions	35,184	331,957	367,141
Government grants transferred out	–	118,161	118,161
Depreciation charge	(6,832)	(14,277)	(21,109)
As at 31 December 2019	<u>85,144</u>	<u>658,009</u>	<u>743,153</u>

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Lease liabilities <i>RMB'000</i>
Carrying amount at 1 January 2019	56,792
New leases	35,184
Accretion of interest recognised during the year	6,036
Payments	(4,018)
Carrying amount at 31 December 2019	<u>93,994</u>
Analysed into:	
Current portion	5,669
Non-current portion	88,325

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	6,036
Depreciation charge of right-of-use assets	21,109
Expense relating to leases of low-value assets (included in administrative expenses)	<u>1,099</u>
Total amount recognised in profit or loss	<u><u>28,244</u></u>

The Group as a lessor

The Group leased certain schools' spaces under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB1,106,000 (2018: RMB808,000), details of which are included in note 5 to the financial statements.

As at 31 December 2019, the undiscounted minimum lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	1,167	775
After one year but within two years	910	584
After two years but within three years	520	609
After three years but within four years	245	252
After four years but within five years	104	—
	<u>2,946</u>	<u>2,220</u>

13. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost and net carrying amount	<u>7,572</u>	<u>7,572</u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the Kinderworld Kindergarten cash-generating unit ("Kinderworld Kindergarten CGU").

The recoverable amount of Kinderworld Kindergarten CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the Directors. The growth rate used to extrapolate the cash flows of the above CGU beyond the five-year period is 3%. The pre-tax discount rate applied to the cash flow projections is 15%.

Assumptions were used in the value in use calculation of the above CGU for 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue – The budgeted sales amounts are based on the historical data and management’s expectation on the future market.

Budgeted EBIT – The basis used to determine the value assigned to the budgeted EBIT is the average EBIT achieved in two years immediately before the budget year.

Long-term growth rate – The long-term growth rate of 3% is based on the historical data and management’s expectation on the future market.

Pre-tax discount rate – The pre-tax discount rate reflects risks relating to the CGU, which is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain public listed companies conducting business in the PRC education industry.

The values assigned to the key assumptions on market development of the cash-generating unit and discount rate are consistent with external information sources.

The most significant assumption on which management has based its determination of the goodwill’s recoverable amount is the budgeted tuition fees, which are dependent on the number of students and students’ unit tuition fees.

The senior management of the Company has estimated the reasonably possible changes in those factors and acknowledged that, even if the most unfavourable possible values were assigned to those factors, the recoverable amount then calculated, after incorporating any consequential effects of such assignments on the other variables used to measure the recoverable amount of the Kinderworld Kindergarten cash-generating unit, would still exceed its carrying amount.

14. TRADE RECEIVABLES

	2019 RMB’000	2018 RMB’000
Within 3 months	<u>1,106</u>	<u>1,037</u>

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.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<i>Current portion:</i>		
Security deposits related to the construction of schools	13,125	17,991
Other deposits	5,596	1,498
Prepayments	7,332	7,947
Prepaid land lease payments to be amortised within one year	–	4,961
Interest receivable	386	4,303
Advances to staff	5,300	2,706
Advances to third parties	1,833	1,833
Deductible input value added tax	33,317	–
Other receivables	2,474	1,704
	<u>69,363</u>	<u>42,943</u>
<i>Non-current portion:</i>		
Prepayments for property, plant and equipment*	50,643	66,967
Security deposit	–	9,567
Prepayments for other intangible assets	2,475	–
Prepayments for the acquisition of land use rights	200,666	288,990
	<u>253,784</u>	<u>365,524</u>
Total	<u><u>323,147</u></u>	<u><u>408,467</u></u>

* Included in the prepayments for property, plant and equipment is a prepayment to a related party, Luzhou Nanyuan Construction Engineering Co., Ltd. amounting to RMB43,092,000 (2018: RMB59,634,000).

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

16. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	22,077	13,131
Over 3 months and within 6 months	165	81
Over 6 months	76	—
	<u>22,318</u>	<u>13,212</u>

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

17. OTHER PAYABLES AND ACCRUALS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Accrued bonuses and other employee benefits	113,720	70,688
Miscellaneous advances from students*	66,740	45,879
Payables for purchase of property, plant and equipment	50,041	32,873
Deposits	11,130	7,663
Interest payable	252	280
Other payables and accrued expenses	12,593	8,417
	<u>254,476</u>	<u>165,800</u>

* 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.

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BUSINESS REVIEW

Overview

Established in 2002, the Group is a leading private education service provider in Western region of the PRC. 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 region of the PRC. As at the end of 2019 fall semester, we have approximately 39,926 students enrolled in the K-12 schools in our school network, representing an increase of 37.6% comparing with approximately 29,024 students enrolled as at the end of the 2018 fall semester.

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 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

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 Reporting Year, approximately 93.6% of graduating high school students of our schools with high school programs which have graduating classes who participated in Gaokao in the cities in which the relevant schools are located were admitted to universities in the PRC, and approximately 68.6% were admitted to first-tier universities in the PRC.

Among these students, approximately 32 students ranked among Top 10 across 4 cities, namely, Luzhou, Yibin, Guangyuan and Xichang, and 3 students achieved number one in their respective city. In addition, 10 of our students were admitted into Peking University and Tsinghua University and a number of other students were admitted into reputable universities overseas such as University of Sydney, Western University and University of Plymouth.

Our Schools and Education Curriculum

We have established a school network consisting of (i) self-owned schools 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 at 31 December 2019, our school network consisted of 24 K-12 schools in operation, which administered 13 high school programs, 17 middle school programs, 19 elementary school programs and 7 kindergarten programs, 10 tutorial centers and 5 early childhood education centers across 16 cities in Sichuan as well as in Shandong, Guizhou, Yunnan, Henan and Inner Mongolia.

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:

	Year ended 31 December	
	2019	2018
Number of full-time teachers		
Self-owned K-12 schools	2,659	2,004
Self-owned tutorial centers	65	75
Total	<u>2,724</u>	<u>2,079</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 31 December 2019, we have approximately 39,926 students enrolled in the self-owned and entrusted K-12 schools in our school network, representing a year-on-year increase of 37.6%. 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 43.2% from RMB640.5 million for the year ended 31 December 2018 to RMB917.4 million for the Reporting Year, primarily driven by the increase of revenue from our self-owned K-12 schools.

The following table sets forth the revenue generated from each school type in our school network for the years ended 31 December 2018 and 31 December 2019:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue		
Self-owned K-12 schools	876,011	608,371
Self-owned tutorial centers	37,800	28,267
Self-owned early childhood education center	–	1,412
Management and franchise fees received from entrusted and franchised schools	3,544	2,483
Total	917,355	640,533

Self-owned K-12 School

As at 31 December 2019, we owned and operated a total of 24 self-owned K-12 schools across Chengdu, Luzhou, Xichang, Guangyuan, Neijiang, Dazhou, Ya'an, Yibin, Deyang, and Ziyang in Sichuan as well as Ulanqab in Inner Mongolia, Weifang in Shangdong, Zhoukou in Henan, Zunyi in Guizhou, Baoshan and Zhaotong in Yunnan.

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 grades 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 Year, the Group recorded RMB876.0 million of revenue from our self-owned K-12 schools which represented 44.0% year-on-year increase and contributed to 95.5% of the Group's revenue for the Reporting Year, 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 years ended 31 December 2018 and 2019.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue from self-owned K-12 schools		
Tuition fees	619,733	426,565
Boarding fees	72,380	54,167
School canteen operations	183,898	127,639
Total revenue from self-owned K-12 schools	876,011	608,371

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 raised the tuition fee rates for the Luzhou Longmatan Tianli Elementary School, the middle school of Yibin Tianli School and 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 years ended 31 December 2018 and 2019.

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Average tuition and boarding fees per student of our self-owned K-12 school¹		
High schools	18.36	16.03
Middle schools	22.31	21.67
Elementary schools	22.15	21.87
Kindergartens	31.89	31.85

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 December of that year divided by the average number of students of that calendar 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 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 at 31 December 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	3	4	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 (5) 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 Year, the Group recorded a revenue of RMB37.8 million (2018: RMB28.3 million) from our self-owned tutorial centers which represented 33.7% year-on-year increase is driven by increased enrollment and tuition fee.

Our self-owned early childhood education center in Luzhou has been closed and entered the process of deregistration, therefore, no revenue was recognised from self-owned early childhood education center during the Reporting Year (2018: RMB1.4 million).

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 an 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 Year.

In addition, we license the right to use our brand to franchised early childhood education centers. As at 31 December 2019, there were one and two franchised early childhood education centers in Chongqing and Luzhou respectively.

As driven by the newly opened entrusted K-12 schools, revenue from management and franchise fees increased by 42.7% from approximately RMB2.5 million for the year ended 31 December 2018 to approximately RMB3.5 million during the Reporting Year.

PROSPECTS

Outlook for Private Education in the 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 the 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 urban households. As the One-Child Policy has been relaxed and the Two-Child Policy implemented, the birth rate increased from 2010 to 2016 and is expected to remain stable going forward. The higher birth rate will lead to a larger number of students when these newborns reach school age and a higher demand for education. These factors will likely drive the PRC education market to grow further. We own a reputable private school network, and the Board is optimistic that we will achieve sustainable development in the growing private education market.

Impact of COVID-19 epidemic

Since the epidemic, the PRC government has implemented various emergency measures to contain the spread of the coronavirus. Among others, the resumption of the classroom teaching, offices and construction works in the PRC has been delayed after the Chinese New Year holidays, and has caused interruption in several aspects of our operation such as staff recruitment, school open days and new school construction.

Such impacts on our operation have so far been immaterial. In respect of class suspension, we have arranged online teaching, tutoring and class meetings for our students and sought for the plans of weekend and summer courses to catch up the set educational schemes. Meanwhile, we do not foresee any significant delay of the construction of new school campuses that are set to complete in May or June 2020 as the topping out works of the relevant campuses have already been completed before the Chinese New Year. We will continue to assess the impact of the epidemic on the Group's business operations and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the epidemic.

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 the PRC.

We had entered into five agreements to open K-12 schools during the Reporting Year. Together with the agreements entered prior to the Reporting Year, 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 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
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
Tongren Wanshan Tianli School (銅仁市萬山區天立學校)	Tongren, Guizhou Province	2,650	Self-owned
Chuzhou Lai'an Tianli School (滁州市來安縣天立學校)	Lai'an, Anhui Province	5,000	Self-owned

Regulatory Update

Draft Amendments on the Implementation Rules for the Law for Promoting Private Education (the “Draft”)

The Ministry of Justice published the Draft Amendments on the Implementation Rules for the Law for Promoting Private Education (中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)) on 10 August 2018. Paragraph 3 of Article 5 of the Draft stipulated that foreign invested enterprises established in the PRC and social organizations in which the foreigners are the actual controller may not operate, participate in the operation of or actually control private schools providing compulsory education; if such enterprises and organizations run other types of private schools, they shall meet the relevant PRC foreign investment regulations, which created uncertainty for the structure under the contractual arrangement of K-12 schools. Article 12 of the Draft provided that social organizations which run or are the actual controller of various private schools and run schools by means of collectivization shall be qualified as a legal person, and possess relevant funds, forces, organization institutions required for running schools, and assume management and supervision responsibilities for their private schools. For those who run schools by means of collectivization, they are not allowed to control non-profit private schools by way of merger and acquisition, franchising and agreement control, which restricted private education groups from expanding through acquisition in the future. Article 45 of the Draft stipulated that administrative department of education and human resources and social security department shall tighten their supervision over the entering into of the agreements between non-profit private schools and stakeholders, and shall examine and review the necessity, legality and compliance of the agreements that involve material interests or have been repeatedly executed over a long period of time, but it did not specify the specific requirements and conditions of examination and review. So far, the Draft has not been considered, nor officially released.

Save as the principal risks and uncertainties summarized in the section headed “Report of Directors” of the annual report of the Group, we cannot assure you that the future Draft implemented by relevant government authorities will not diverge from our current understanding and interpretation of it. Given the changing regulatory environment, there are still certain uncertainties about how to implement the above Draft. We are not certain that future laws or relevant implementation rules for the law for promoting private education will have an impact on our business, financial conditions and operating results (if any). As of the date of this announcement, the Company has not been affected by the Draft. The Company will closely monitor the developments of the Draft.

Several Opinions of the CPC Central Committee and the State Council on Deepening the Reform and Standardization of Preschool Education (the “Several Opinions”)

On 7 November 2018, the CPC Central Committee and the State Council issued Several Opinions on Deepening the Reform and Standardization of Preschool Education (《關於學前教育深化改革規範發展的若干意見》). The Several Opinions stipulated that private kindergartens are not allowed to be listed separately or packaged as part of assets. Listed companies are not allowed to invest in for-profit kindergartens by raising funds from stock market, nor acquire assets from for-profit kindergartens by issuing shares or paying cash. As of the date of this announcement, no laws and regulations corresponding to the Several Opinions have been promulgated.

In light of the immaterial revenue contribution from the kindergarten segment, implementing the Several Opinions will not have significant impact on the financial conditions and operating results of the Group. However, the Company will closely monitor the developments of the Several Opinions.

Foreign Investment Law of the PRC

On 15 March 2019, the Standing Committee of the National People's Congress promulgated the Foreign Investment Law which became effective on 1 January 2020. The Implementation Rules of the Foreign Investment Law came into effect on the same date as well. The Foreign Investment Law and the Implementation Rules defines foreign investment as direct or indirect investment activities in the PRC by one or more foreign natural persons, enterprises or other organizations ("Foreign Investors"), and clearly stipulates four types of investment activities would fall within the definition of foreign investment, including (a) Foreign Investors alone or cooperate with other investors to establish foreign-invested enterprises in the PRC; (b) Foreign Investors acquire shares, equities, property shares or other similar rights of Chinese domestic enterprises; (c) Foreign Investors alone or cooperate with other investors invest new projects in the PRC; and (d) other means of investment prescribed by laws, administrative regulations and rules promulgated by the State Council. 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 further stipulates that laws such as the Company Law of the PRC and the Partnership Enterprise law of the PRC shall apply to the organizational form, corporate governance and activities standards of foreign invested enterprises. For foreign invested enterprises established before the implementation of the Foreign Investment Law may maintain their original organizational form for five years from 1 January 2020. Specific measures for implementation shall be formulated by the State Council. 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 43.2% from RMB640.5 million for the year ended 31 December 2018 to RMB917.4 million for the Reporting Year, primarily driven by an increase in student enrolment and an increase in tuition fee rates for some of our self-owned K-12 school.

Revenue from tuition fees increased by 44.1% from RMB456.2 million for the year ended 31 December 2018 to RMB657.5 million for the Reporting Year, primarily as a result of the increase of student enrollment. We opened two and seven K-12 schools in 2018 and 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 and the high school of Guangyuan Tianli School.

Revenue from boarding fees increased by 33.6% from RMB54.2 million for the year ended 31 December 2018 to RMB72.4 million for the Reporting Year, primarily driven by an increase in student enrolment.

Revenue from school canteen and convenience store operations increased by 44.1% from RMB127.6 million for the year ended 31 December 2018 to RMB183.9 million for the Reporting Year, primarily as a result of increased student enrollment.

Revenue from management fees increased by 42.7% from approximately RMB2.5 million for the year ended 31 December 2018 to approximately RMB3.5 million for the Reporting Year, primarily because of addition of a K-12 school into our entrusted school network during the Reporting 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.

	Year ended 31 December	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Labor costs	291,807	208,643
Teaching related costs	28,906	21,026
Depreciation and amortization	86,874	48,110
Material consumption	108,728	73,772
Utilities	19,152	12,368
Others	5,573	7,564
Total	541,040	371,483

Labor costs increased by 39.9% from RMB208.6 million for the year ended 31 December 2018 to RMB291.8 million for the Reporting Year, 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 37.5% from RMB21.0 million for the year ended 31 December 2018 to RMB28.9 million for the Reporting Year, primarily because of an increase in our teachers' teaching activities resulting from the increased student enrollment.

Depreciation and amortization costs increased by 80.6% from RMB48.1 million for the year ended 31 December 2018 to RMB86.9 million for the Reporting Year, primarily because we opened two and seven self-owned K-12 schools in 2018 and 2019 respectively.

Material consumption costs increased by 47.4% from RMB73.8 million for the year ended 31 December 2018 to RMB108.7 million for the Reporting Year, primarily because of the increased student enrollment.

Utilities increased by 54.9% from RMB12.4 million for the year ended 31 December 2018 to RMB19.2 million for the Reporting Year, primarily because we incurred additional utility for the self-owned schools opened in 2018 and 2019.

Other costs decreased by 26.3% from approximately RMB7.6 million for the year ended 31 December 2018 to approximately RMB5.6 million for the Reporting Year, primarily due to the decrease in sporadic maintenance expense in 2019.

Gross Profit and Gross Profit Margin

The Group's gross profit for the Reporting Year were approximately RMB376.3 million, representing an increase of 39.9% from approximately RMB269.1 million for the year ended 31 December 2018. The Group's gross profit margin for the Reporting Year was approximately 41.0%, representing a slight decrease from approximately 42.0% for the year ended 31 December 2018 due to the increased labor cost.

Other Income and Gains

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

Other income and gains decrease from RMB50.7 million for the year ended 31 December 2018 to RMB29.9 million for the Reporting Year, primarily because of decrease in the net gain in foreign exchange.

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, and meal and training expenses incurred in connection with administrative activities.

Administrative expenses increased slightly by 3.8% from RMB87.6 million for the year ended 31 December 2018 to RMB90.8 million for the Reporting Year, primarily as a result of an increase in administrative staff costs.

Administrative staff costs increased by 20.7% from RMB45.5 million for the year ended 31 December 2018 to RMB54.9 million for the Reporting Year, primarily because we recruited additional administrative staff and management personnel for the K-12 schools opened in 2018 and 2019 and raised their salaries.

No listing expenses were incurred in the Reporting Year, while RMB21.1 million was incurred for the year ended 31 December 2018. All listing expenses have been fully settled by 31 December 2018.

Interest Expenses

Interest expenses decreased from RMB17.6 million for the year ended 31 December 2018 to RMB12.6 million for the Reporting Period, primarily because substantial part of the interest expenses have been capitalised as property, plant, and equipment of the Group in the Reporting Year.

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 31 December 2019, we had net current liabilities of approximately RMB667.4 million, while net current assets of approximately RMB281.4 million as at 31 December 2018. Such change of position was mainly attributable to (i) purchase of property, plant and equipment for the newly opened schools; (ii) payment of dividends declared in 2018; and (iii) repurchase of shares under the share award scheme.

In view of the net current liabilities 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 Financial Information as a going concern basis.

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB631.4 million (2018: approximately RMB1,233.0 million).

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

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flow from operating activities	926,471	419,849
Net cash flow used in investing activities	(1,066,084)	(1,244,989)
Net cash flow from/(used in) financing activities	(115,516)	1,218,878
Net increase/(decrease) in cash and cash equivalents	(255,129)	393,738
Net effect of foreign exchange rates	(1,153)	—
Cash and cash equivalents at beginning of year	707,277	313,539
Cash and cash equivalents at end of year	450,995	707,277

As at 31 December 2019, cash and cash equivalents amounted to RMB451.0 million. It also represented a decrease of RMB256.3 million compared with RMB707.3 million as at 31 December 2018. The decrease in cash and cash equivalents was primarily attributable to (i) net cash flow used in investing activities resulting from purchase of property, plant and equipment for the K-12 schools newly opened during the Reporting Year; and (ii) net cash flows used in financing activities, including share repurchase, payment of dividends and interests, and payment of leases.

BORROWINGS AND GEARING RATIO

As at 31 December 2019, the Group had borrowings of approximately RMB459.0 million which was denominated in RMB (2018: RMB458.6 million). The Group's bank borrowings were primarily used in financing the working capital requirement of its operations and school constructions.

As at 31 December 2019, the gearing ratio of the Group, calculated as the total interest-bearing borrowings divided by the total equity, was approximately 18.5% (2018: approximately 20.0%).

FOREIGN CURRENCY RISK

The functional currency of the Company is RMB, except that the functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at 31 December 2019, certain cash and bank balances and time deposits are denominated in RMB, HKD and USD, which would expose the Group to foreign currency risk. The Group has not used any foreign currency swap contracts to reduce the exposure to USD and HKD arising from bank balances.

CONTINGENT LIABILITIES

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

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	598.25	288.93	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	122.38	25.48	On or before December 2020

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 31 December 2019:

	As at 31 December 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
Chengdu Pixian Tianli School (成都郫縣天立學校)	80.00
Dongying Tianli School (東營天立學校)	26.59
Total	598.25

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK4.10 cents (equivalent to RMB3.75 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 20 March 2020, i.e. RMB0.9155 equivalent to HKD1.00) (2018: HK3.26 cents) per share of the Company for the year ended 31 December 2019 to be paid on Tuesday, 23 June 2020 to the shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 20 May 2020, representing a dividend payout of HKD85.0 million (equivalent to approximately RMB77.8 million) and dividend payout ratio of 28.9% for the year ended 31 December 2019 (2018: 29.0%). The recommendation of payment of the final dividend is subject to the shareholders' approval at the forthcoming AGM of the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on 11 May 2020 (Monday), the register of members of the Company will be closed from 6 May 2020 (Wednesday) to 11 May 2020 (Monday), both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai for registration not later than 4:30 p.m. on 5 May 2020 (Tuesday).

For determining the entitlement to the proposed final dividend (subject to the approval by Shareholders at the AGM) for the year ended 31 December 2019, the register of members of the Company will be closed from 16 May 2020 (Saturday) to 20 May 2020 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai for registration not later than 4:30 p.m. on 15 May 2020 (Friday).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed approximately 5,299 employees (2018: 3,979).

The staff costs, including Directors' emoluments, net of government grant released and subsidies received, of the Group were approximately RMB518.3 million for the Reporting Year (2018: approximately RMB337.4 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 (as explained in the section headed "Share Incentive Schemes" below) are also adopted to retain high calibre staff of the Group.

SHARE INCENTIVE SCHEMES

Prior to listing date, the Company adopted the Pre-IPO Restricted Share Award Scheme and Share Option Scheme on 15 January 2018 and 24 June 2018 respectively. For details of the schemes, please refer to the Prospectus of the Company.

On 17 December 2018, the Company adopted Restricted Share Award Scheme. The purpose and objective of Restricted Share Award Scheme is (i) to recognize and motivate the contribution of the key management personnel and core employees of the Group; (ii) to help the Group retain and attract the Selected Participants in attaining the long term business objectives of the Company; and (iii) to further align the interests of the Selected Participants directly to the shareholders of the Company through ownership of Shares.

Pursuant to Restricted Share Award Scheme, existing Shares have been purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the relevant Selected Participants until such Shares are vested with the relevant Selected Participants in accordance with the provisions of the scheme. The Restricted Share Award Scheme shall be subject to the administration of the Board and the Trustee in accordance with the scheme rules and the trust deed.

On 17 December 2018, the Board resolved to grant a total of not more than 75,000,000 Shares to Selected Participants. The Award Shares represent approximately 3.61% of the total issued shares of the Company as at the date of this announcement. Subject to the acceptance of grant of the Award Shares by the Selected Participants and the terms and conditions of the Restricted Share Award Scheme, the Award Shares will be vested in full in six years according to the respective vesting schedule for the grant.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code for dealings in securities of the Company by the Directors. Having made specific enquiry to all the Directors, they have confirmed that they have complied with the Model Code for Securities Transactions by Directors of Listed Issuers during the year ended 31 December 2019.

CORPORATE GOVERNANCE

During the year ended 31 December 2019, the Company has complied with all applicable code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules, save and except for the following deviation.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should not be performed by the same individual. Mr. Luo Shi was appointed as the chairman of the Board and an executive Director of our Company on 31 January 2018. Mr. Luo has been the chief executive officer and chairman of Tianli Education since September 2013.

The Board believes that it is in the interest of the Company and its Shareholders for Mr. Luo Shi to assume the responsibilities of such positions, given that Mr. Luo Shi is the founder of the Company and has extensive experience in the operation and management of the Company. The Board also considers that such arrangement will not impair the balance of power and authority between the Board and the management as the Board comprises six other experienced individuals including two other executive Directors and three independent non-executive Directors. In addition, for major decisions of the Group, the Company will consult Board committees and senior management as and when appropriate. The Board will review such arrangement from time to time and will continue to review and monitor the corporate governance practices of the Company for the purpose of maintaining high corporate governance standards.

AUDIT COMMITTEE

The Company has established the Audit Committee comprising three members, namely, Mr. Liu Kai Yu Kenneth, Mr. Cheng Yiqun and Mr. Yang Dong. Mr. Liu Kai Yu Kenneth is the chairman of the Audit Committee.

The Audit Committee has its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the financial controls, risk management and internal control systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee, together with the management of the Company, has discussed the matters concerning risk management and internal control, auditing and financial reporting matters and reviewed the annual results and the consolidated financial statements of the Group for the year ended 31 December 2019.

SCOPE OF WORK FOR ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2019, but represents an extract from the consolidated financial statements for the year ended 31 December 2019 which have been audited by the auditor of the Company, Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the Audit Committee and approved by the Board.

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 financial information, there was no significant investment held, material acquisition and disposal of subsidiaries and associates by the Company during the Reporting Year. There was no future plan for material investments or capitals assets as at 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules during the year ended 31 December 2019.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.tianlieducation.com. The annual report of the Group for the year ended 31 December 2019 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Shareholders in due course.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“AGM”	Annual General Meeting
“Audit Committee”	a committee of the Board established by the Board for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company
“Award Shares”	the Share(s) awarded to Selected Participants which the Board resolved on 17 December 2018 to grant a total of not more than 75,000,000 Shares under the Restricted Share Award Scheme
“Board”	the board of Directors of the Company
“Company”	Tianli Education International Holdings Limited (天立教育國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange

“controlling shareholders”	has the meaning given to it under the Listing Rules
“CG Code”	Corporate Governance Code and Corporate Governance Report
“COVID-19”	the respiratory illness caused by a new form of coronavirus that emerged in 2019
“CPC Central Committee”	Central Committee of the Communist Party of China
“Director(s)”	the director(s) of the Company
“Foreign Investment Law”	Foreign Investment Law of the PRC (中華人民共和國外商投資法)
“Gaokao”	National Higher Education Entrance Examination (普通高等學校招生全國統一考試)
“Group”, “we”, “us” or “our”	the Company, its subsidiaries and entities under the Company’s control through contractual arrangements in the PRC
“IPO”	Initial Public Offering
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Pre-IPO Restricted Share Award Scheme”	the pre-IPO restricted share award scheme for the award of Shares to eligible participants, adopted by the Company on 26 January 2018, the principal terms of which are set out in the section headed “Statutory and General Information – D. Restricted Share Award Scheme” in Appendix V to the Prospectus
“Prospectus”	the prospectus of the Company dated 28 June 2018 issued by the Company in relation to the listing of its Shares on the Main Board of the Stock Exchange
“PRC Operating Entities”	the schools and entities which we control through the contractual arrangements
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Reporting Period”/ “Reporting Year”	for the year ended 31 December 2019

“Restricted Share Award Scheme”	the restricted share award scheme for the award of Shares to eligible participant, adopted by the Company on 17 December 2018, pursuant to the Announcement made by the Company on 17 December 2018
“Selected Participants”	Eligible persons selected by the Board or authorized administrators to be granted the share awards under the Restricted Share Award Scheme at its sole discretion
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of HK\$0.1 each
“Share Option Scheme”	the share option scheme of our Company, adopted pursuant to a resolution of our Shareholders on 24 June 2018, the principal terms of which are summarized in the section headed “Statutory and General Information – E. Share Option Scheme” in Appendix V to the Prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianli Education”	Shenzhou Tianli Education Investment Co., Ltd. (神州天立教育投資有限責任公司), a limited liability company established in the PRC on 19 April 2013 and our principal operating subsidiary, it was formerly known as Sichuan Shenzhou Tianli Education Investment Co., Ltd. (四川神州天立教育投資有限公司)
“Trustee”	The Core Trust Company Limited (匯聚信託有限公司) (which is independent of and not connected with the Company), being appointed by the Company for the administration of the Restricted Share Award Scheme, or any additional or replacement trustee(s)

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

The PRC, 20 March 2020

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 as non-executive Director and Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun as independent non-executive Directors.