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天立教育国际控股有限公司
Tianli Education International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1773)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			Percentage Change
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)	Change <i>RMB'000</i>	
Revenue	570,654	438,093	132,561	30.3%
Gross Profit	275,262	190,302	84,960	44.6%
Profit for the period	210,242	146,375	63,867	43.6%
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
	RMB	RMB	RMB	
Basic	10.22 cents	7.01 cents	3.21 cents	45.8%
Diluted	10.19 cents	7.01 cents	3.18 cents	45.4%

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Tianli Education International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2020 (the “**Reporting Period**”). These interim results have been reviewed by the Company’s audit committee (the “**Audit Committee**”) and the Company’s external auditors, Ernst & Young.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	3	570,654	438,093
Cost of sales		(295,392)	(247,791)
Gross profit		275,262	190,302
Other income and gains	3	11,288	12,420
Selling and distribution expenses		(8,108)	(6,687)
Administrative expenses		(58,575)	(42,711)
Other expenses		(1,576)	(3,429)
Interest expenses	4	(7,395)	(3,500)
Share of profit/(loss) of an associate		(103)	729
PROFIT BEFORE TAX	5	210,793	147,124
Income tax expense	6	(551)	(749)
PROFIT FOR THE PERIOD		210,242	146,375
OTHER COMPREHENSIVE INCOME FOR THE PERIOD			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:			
Exchange differences related to translation of foreign operation		178	126
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		210,420	146,501
Profit attributable to:			
Owners of the Company		208,466	143,738
Non-controlling interests		1,776	2,637
		210,242	146,375
Total comprehensive income attributable to:			
Owners of the Company		208,644	143,864
Non-controlling interests		1,776	2,637
		210,420	146,501
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	7	RMB10.22 cents	RMB7.01 cents
Diluted	7	RMB10.19 cents	RMB7.01 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	3,735,401	2,999,396
Right-of-use assets	9	860,946	743,153
Goodwill	10	7,572	7,572
Intangible assets		3,765	2,645
Investment in an associate		6,518	6,621
Prepayments, deposits and other receivables	12	385,697	253,784
Total non-current assets		4,999,899	4,013,171
CURRENT ASSETS			
Inventories		3,841	3,542
Trade receivables	11	3,027	1,106
Prepayments, deposits and other receivables	12	91,372	69,363
Amounts due from related parties	23(b)	202	202
Financial assets at fair value through profit or loss		6,300	4,200
Cash and cash equivalents	13	775,049	631,429
Total current assets		879,791	709,842
CURRENT LIABILITIES			
Trade payables	14	22,760	22,318
Other payables and accruals	15	304,740	254,476
Contract liabilities	16	394,915	537,573
Interest-bearing bank loans	18	220,500	184,000
Amount due to a related party	23(b)	406,717	217,596
Tax payable		2,750	2,846
Lease liabilities	9	8,103	5,669
Deferred income	17	219,872	152,737
Total current liabilities		1,580,357	1,377,215
NET CURRENT LIABILITIES	2.1	(700,566)	(667,373)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,299,333	3,345,798

Continued/...

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(audited)
NON-CURRENT LIABILITIES			
Contract liabilities	<i>16</i>	49,299	50,424
Lease liabilities	<i>9</i>	87,587	88,325
Deferred income	<i>17</i>	752,030	450,642
Interest-bearing bank loans	<i>18</i>	793,500	275,000
Total non-current liabilities		1,682,416	864,391
Net assets		2,616,917	2,481,407
EQUITY			
Equity attributable to owners of the Company			
Issued capital	<i>19</i>	176,375	176,375
Reserves		2,396,342	2,262,608
		2,572,717	2,438,983
Non-controlling interests		44,200	42,424
Total equity		2,616,917	2,481,407

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company											
	Issued capital	Share premium	Share repurchased for the share award scheme	Share award scheme reserve	Capital reserve	Difference arising from acquisition of non-controlling interests	Statutory surplus reserves	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000 (unaudited) (note 19)	RMB'000 (unaudited)	RMB'000 (unaudited) (note 20)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
As at 1 January 2020	176,375	1,015,777*	(42,489)*	—	563,558*	16,326*	101,025*	151*	608,260*	2,438,983	42,424	2,481,407
Profit for the period	—	—	—	—	—	—	—	—	208,466	208,466	1,776	210,242
Other comprehensive income for the period:												
Exchange differences on translation of foreign operation	—	—	—	—	—	—	—	178	—	178	—	178
Total comprehensive income for the period	—	—	—	—	—	—	—	178	208,466	208,644	1,776	210,420
Transfer from retained profits	—	—	—	—	—	—	23,893	—	(23,893)	—	—	—
Offset with a dividend	—	—	1,270	—	—	—	—	—	—	1,270	—	1,270
Final 2019 dividend declared	—	(77,668)	—	—	—	—	—	—	—	(77,668)	—	(77,668)
Equity-settled share award scheme expenses	—	—	—	1,480	—	—	—	—	—	1,480	—	1,480
Proceeds from shares awarded in the prior year under the share award scheme	—	—	8	—	—	—	—	—	—	8	—	8
As at 30 June 2020	<u>176,375</u>	<u>938,109*</u>	<u>(41,211)*</u>	<u>1,480*</u>	<u>563,558*</u>	<u>16,326*</u>	<u>124,918*</u>	<u>329*</u>	<u>792,833*</u>	<u>2,572,717</u>	<u>44,200</u>	<u>2,616,917</u>
At 1 January 2019	176,375	1,075,090*	—	—	563,558*	(824)*	74,171*	—	370,168*	2,258,538	33,424	2,291,962
Profit for the period	—	—	—	—	—	—	—	—	143,738	143,738	2,637	146,375
Other comprehensive income for the period:												
Exchange differences on translation of foreign operation	—	—	—	—	—	—	—	126	—	126	—	126
Total comprehensive income for the period	—	—	—	—	—	—	—	126	143,738	143,864	2,637	146,501
Transfer from retained profits	—	—	—	—	—	—	13,051	—	(13,051)	—	—	—
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	(340)	(340)
Final 2018 dividend declared	—	(59,313)	—	—	—	—	—	—	—	(59,313)	—	(59,313)
Increase in capital reserve of a subsidiary	—	—	—	—	17,150	—	—	—	—	17,150	—	17,150
Shares repurchased for the share award scheme	—	—	(43,129)	—	—	—	—	—	—	(43,129)	—	(43,129)
Capital contribution from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	3,888	3,888
At 30 June 2019	<u>176,375</u>	<u>1,015,777*</u>	<u>(43,129)*</u>	<u>—</u>	<u>580,708*</u>	<u>(824)*</u>	<u>87,222*</u>	<u>126*</u>	<u>500,855*</u>	<u>2,317,110</u>	<u>39,609</u>	<u>2,356,719</u>

* These reserve accounts comprise the reserves of RMB2,396,342,000 (31 December 2019: RMB2,262,608,000) in the interim condensed consolidated statement of financial position

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		210,793	147,124
Adjustments for:			
Depreciation of property, plant and equipment	5	49,490	31,390
Depreciation of right-of-use assets	5	11,848	8,585
Amortisation of intangible assets	5	139	46
Share of loss/(profit) of an associate		103	(729)
Gain on disposal of financial assets at fair value through profit or loss	5	(110)	(1,605)
Loss on disposal of items of property, plant and equipment, net	5	69	–
Loss on cancellation of operating leases as a lessee		114	–
Equity settled share award scheme expenses	5	1,480	–
Unrealised foreign exchange gains, net		(5,367)	(1,683)
Bank interest income	5	(3,532)	(7,081)
Deferred income released to profit or loss	17	(86,694)	(53,555)
Interest expenses	4	7,395	3,500
		185,728	125,992
Increase in inventories		(299)	(240)
Increase in trade receivables		(1,921)	(3,151)
Increase in prepayments, deposits and other receivables		(13,875)	(24,711)
Decrease in amounts due from related parties		–	2,365
Increase/(decrease) in trade payables		442	(217)
Increase/(decrease) in contract liabilities		(129,679)	272,708
Receipt of government grants		446,305	236,925
Increase in other payables and accruals		44,868	57,880
Cash generated from operations		531,569	667,551
Income tax paid		(647)	(646)
Net cash flows from operating activities		530,922	666,905

Continued/...

	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(558,859)	(599,559)
Purchase of intangible assets	(3,613)	(2,513)
Prepaid land lease payments	(290,916)	(144,899)
Proceeds from disposal of items of property, plant and equipment	50	205
Purchase of financial assets at fair value through profit or loss	(107,803)	(347,533)
Proceeds from disposal of financial assets at fair value through profit or loss	105,813	306,255
Decrease in time deposits with original maturity of over three months	180,434	418,290
Bank Interest received	3,918	11,384
Net cash flows used in investing activities	(670,976)	(358,370)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend received from shares awarded scheme	1,270	–
Repurchase of shares held for the share award scheme	–	(43,129)
Capital contribution from the non-controlling shareholders	–	21,038
Proceeds from shares awarded under the share award scheme	400	–
Proceeds from bank loans	736,000	–
Repayment of bank loans	(181,000)	(14,567)
Dividends paid	(77,668)	(59,313)
Dividends paid to non-controlling shareholders of subsidiaries	–	(340)
Principal portion of lease payments	(1,621)	(1,360)
Interest portion of the lease liabilities	(1,044)	(649)
Interest paid	(17,774)	(15,085)
Net cash flows from/(used in) financing activities	458,563	(113,405)

	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
NET INCREASE IN CASH AND CASH EQUIVALENTS	318,509	195,130
Effect of foreign exchange rate changes, net	5,545	1,808
Cash and cash equivalents at beginning of period	<u>450,995</u>	<u>707,277</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>775,049</u></u>	<u><u>904,215</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the consolidated statement of financial position	775,049	1,011,645
Time deposits with original maturity of over three months	<u>–</u>	<u>(107,430)</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u><u>775,049</u></u>	<u><u>904,215</u></u>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

30 JUNE 2020

1. CORPORATE INFORMATION

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

During the period ended 30 June 2020 (the “**Period**”), the Company and its subsidiaries (collectively referred to as the “**Group**”), the Group were principally engaged in the provision of education and related management services in the People's Republic of China (the “**PRC**”). There were no significant changes in the nature of the Group's principal activities during the Period.

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

2.1 BASIS OF PRESENTATION

The interim condensed consolidated financial information for the Period has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

Going concern

The Group recorded net current liabilities of RMB700,566,000 as at 30 June 2020. Therein the Group recorded a current portion of contract liabilities and deferred income of RMB394,915,000 and RMB219,872,000, respectively, as at 30 June 2020.

In view of the net current liability position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash flows from operations and the positive operating results, the Directors are of the opinion that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future and it is appropriate to prepare the interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“**IFRSs**”) for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The adoption of these revised standards to IFRSs has had no significant financial effect on the preparation of the Group's interim condensed consolidated financial information.

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the values of services rendered after deducting scholarships and refunds during the Period and the six months ended 30 June 2019.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<i>Revenue from contracts with customers</i>		
Tuition fees	411,589	306,959
Boarding fees	49,423	38,930
School canteen operations	107,815	89,162
Management and franchise fees	1,827	3,042
Total revenue	570,654	438,093

Revenue from contracts with customers

(i) Disaggregated revenue information

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Timing of revenue recognition		
Goods transferred at a point in time	107,815	89,162
Services transferred over time	462,839	348,931
Total revenue from contracts with customers	570,654	438,093

(ii) Performance obligations

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

Goods transferred at a point in time

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

Services transferred over time

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

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

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Within one year	394,915	537,573
More than one year	49,299	50,424
	444,214	587,997

The performance obligations expected to be recognised in more than one year relate to teaching services that are to be satisfied within 26.5 years from 30 June 2020. All the other remaining performance obligations are expected to be recognised within one year.

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other income and gains		
Bank interest income	3,532	7,081
Other service income	1,177	3,044
Foreign exchange gains, net	5,863	–
Gain on disposal of financial assets at fair value through profit or loss	110	1,605
Rental income	320	507
Others	286	183
	<u>11,288</u>	<u>12,420</u>

4. INTEREST EXPENSES

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank loans	17,522	14,805
Less: Interest capitalised (note 8(b))	(13,192)	(14,323)
	<u>4,330</u>	<u>482</u>
Interest on lease liabilities	3,065	3,018
	<u>7,395</u>	<u>3,500</u>
Interest rate of borrowing costs capitalised (%)	<u>5.73-7.13</u>	<u>6.18-7.13</u>

5. PROFIT BEFORE TAX

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

		For the six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
Notes		(unaudited)	(unaudited)
	Cost of inventories sold	48,994	46,906
	Cost of services provided	246,398	200,885
		295,392	247,791
	Employee benefit expense (excluding directors' and chief executive's remuneration):		
	Wages and salaries	252,410	181,400
	Pension scheme contributions (defined contribution scheme)	17,950	20,788
	Welfare	25,100	21,617
	Housing fund (defined contribution scheme)	8,826	7,078
17	Less: Government grants released	(86,694)	(53,555)
	Subsidies received	(9,160)	(3,043)
		208,432	174,285
	Depreciation of items of property, plant and equipment*	49,490	31,390
9	Depreciation of right-of-use assets*	11,848	8,585
	Amortisation of intangible assets	139	46
	Auditor's remuneration	1,200	1,000
	Bank interest income	(3,532)	(7,081)
	Loss on disposal of property, plant and equipment, net	69	–
	Loss on cancellation of operating leases as a lessee	114	–
	Gain on disposal of financial assets at fair value through profit or loss	(110)	(1,605)
	Lease payments not included in the measurement of lease liabilities	941	539
	Research expenses	1,452	–
	Equity-settled share award scheme expenses	1,480	–
	Foreign exchange losses/(gains), net	(5,863)	1,884
	Rental income	(320)	(507)

* The depreciation of items of property, plant and equipment and depreciation of right-of-use assets of RMB44,143,000 and RMB11,124,000, respectively (Six months ended 30 June 2019: the depreciation of items of property, plant and equipment and depreciation of right-of-use assets of RMB29,259,000 and RMB7,918,000 respectively) are recorded in "Cost of sales" in profit or loss.

6. INCOME TAX

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current – Mainland China		
Charge for the period	551	749

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.
- (b) The applicable corporate income tax (“CIT”) rate for a 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 Period and the six months ended 30 June 2019.
- (c) Pursuant to the PRC Income Tax Law and the respective regulations, except for Tibet Yongshi, all the Group’s non-school subsidiaries established in the PRC were subject to the PRC CIT at a rate of 25% during the Period and the six months ended 30 June 2019.
- (d) During the Period, Tibet Yongshi was entitled to a preferential PRC CIT rate of 15% as its business scope falls within the scope of the encouraging education industry under the “Western Development Policy”.
- (e) 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 from the provision of formal educational services during the Period and the six months ended 30 June 2019.
- (f) 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%. Kindergartens 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 to RMB3 million is taxed at 10%.

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

The calculation of the basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the six months ended 30 June 2020, and the weighted average number of ordinary shares in issue during the Period, as adjusted to reflect the shares repurchased under the share award scheme during the Period.

The calculation of the diluted earnings per share amounts is based on the profit for the Period 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 Period, as used in the basic earnings per share calculation and the number of unvested ordinary shares that would have been issued under the share award scheme when they become vested.

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

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Earnings		
Profit attributable to the ordinary equity holders	208,466	143,738
	Number of shares	
	For the six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue	2,075,000,000	2,075,000,000
Effect of the weighted average number of ordinary shares repurchased under the share award scheme	(34,355,000)	(25,010,000)
Adjusted weighted average number of ordinary shares used in the basic earnings per share calculation	2,040,645,000	2,049,990,000
Effect of dilution:		
Number of unvested ordinary shares granted under the share award scheme	7,724,000	—
Adjusted weighted average number of ordinary shares used in the diluted earnings per share calculation	2,048,369,000	2,049,990,000

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

Movements in property, plant and equipment during the Period are as follows:

	Property, plant and equipment RMB'000 (Unaudited)
Carrying amounts at 1 January 2020	2,999,396
Additions	785,614
Disposals	(119)
Depreciation charged for the Period (note 5)	(49,490)
Carrying amounts at 30 June 2020	3,735,401

Notes:

- (a) As at 30 June 2020, the Group was in the customary process of obtaining the relevant property ownership certificates for certain buildings with a net carrying amount of approximately RMB1,836,118,000 (31 December 2019: RMB1,719,422,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.
- (b) Interest expenses capitalised as part of property, plant and equipment by the Group during the Period amounted to RMB13,192,000 (six months ended 30 June 2019: RMB14,323,000) (note 4).

9. LEASES

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

	Right-of-use assets			Lease liabilities
	Land RMB'000 (Unaudited)	Buildings RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	RMB'000
As at 1 January 2020	658,009	85,144	743,153	93,994
Additions	128,459	2,556	131,015	2,556
Depreciation charged	(8,139)	(3,709)	(11,848)	–
Interest expense	–	–	–	3,065
Cancellation	–	(1,374)	(1,374)	(1,260)
Payments	–	–	–	(2,665)
As at 30 June 2020	778,329	82,617	860,946	95,690

The Group recognised rental expenses from short-term leases of RMB941,000 (note 5) for the Period (six months ended 30 June 2019: RMB539,000).

10. GOODWILL

IAS 36 requires an entity to perform impairment tests on goodwill on an annual basis. However, management did not identify any significant adverse changes in the operating results and macro environment in the six months' period ended 30 June 2020, and the Company's management has concluded there was no impairment indicator of goodwill as at 30 June 2020. Accordingly, the Company's management did not perform impairment testing on goodwill as at 30 June 2020.

11. TRADE RECEIVABLES

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
Within 3 months	3,027	1,106

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.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
<i>Current portion:</i>		
Security deposits related to the construction of schools	11,760	13,125
Other deposits	1,436	5,596
Prepayments	9,607	7,332
Interest receivable	–	386
Advances to staff	5,467	5,300
Advance to third parties	1,833	1,833
Deductible input value-added tax	47,451	33,317
Government grant receivable	8,912	–
Other receivables	4,906	2,474
	91,372	69,363
<i>Non-current portion:</i>		
Prepayments for property, plant and equipment*	17,745	50,643
Prepayment for intangible assets	4,829	2,475
Prepayment for the acquisition of land use rights	363,123	200,666
	385,697	253,784
Total	477,069	323,147

* Included in the prepayments for property, plant and equipment is a prepayment paid to a related party, Luzhou Nanyuan Construction Engineering Co., Ltd. (“Nanyuan Construction”) amounting to RMB8,211,000 (31 December 2019: RMB43,092,000) (note 23(b)).

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

13. CASH AND CASH EQUIVALENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Cash and bank balances	600,417	316,993
Time deposits with original maturity of:		
– less than three months	174,632	134,002
– over three months	<u>–</u>	<u>180,434</u>
Cash and cash equivalents	<u>775,049</u>	<u>631,429</u>

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
RMB	529,328	251,212
HK\$	111,388	199,030
US\$	<u>134,333</u>	<u>181,187</u>
	<u>775,049</u>	<u>631,429</u>

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

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

14. TRADE PAYABLES

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 3 months	21,530	22,077
Over 3 months and within 6 months	157	165
Over 6 months	1,073	76
	22,760	22,318

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

15. OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Accrued bonuses and other employee benefits	139,159	113,720
Miscellaneous advances from students*	82,454	66,740
Payables for purchase of property, plant and equipment	41,585	50,041
Deposits	12,862	11,130
Interest payable	–	252
Boarding fees and canteen operation fees refundable to students (note 16)	14,104	–
Other payables and accrued expenses	14,576	12,593
	304,740	254,476

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

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

16. CONTRACT LIABILITIES

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
Tuition fees	404,436	497,916
Boarding fees	17,533	31,217
Canteen operation fees	19,306	55,440
Others	2,939	3,424
	<u>444,214</u>	<u>587,997</u>
Current portion	394,915	537,573
Non-current portion (note)	<u>49,299</u>	<u>50,424</u>
	<u>444,214</u>	<u>587,997</u>

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

Changes in contract liabilities during the reporting period/year are as follows:

	30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
At the beginning of the reporting period/year	587,997	393,324
Revenue recognised that was included in the contract liabilities at the beginning of the reporting period/year	(538,698)	(342,900)
Boarding fees and canteen operation fees refundable to students (note 15)	14,104	–
Increase due to cash received, excluding amounts recognised as revenue during the reporting period/year	<u>380,811</u>	<u>537,573</u>
At the end of the reporting period/year	<u>444,214</u>	<u>587,997</u>

There were no contract assets at 30 June 2020 recognised in the consolidated statement of financial position.

17. DEFERRED INCOME

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
<i>Government grants related to expense items</i>		
At the beginning of period/year	603,379	169,794
Government grants received	455,217	465,349
Government grant transferred in from prepaid land lease payments	–	118,161
Released to profit or loss (note 5)	(86,694)	(149,925)
	971,902	603,379
At the end of period/year		
Current	219,872	152,737
Non-current	752,030	450,642
	971,902	603,379
Total		

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

18. INTEREST-BEARING BANK LOANS

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Current						
Bank loans – secured	4.785	2021	100,000	4.785	2020	100,000
Bank loans – unsecured	6	2021	50,000	–	–	–
Current portion of long-term bank loans – secured	5.73-7.125	2021	70,500	6.175-7.125	2020	84,000
			220,500	–	–	184,000
Non-current						
Bank loans – secured	5.292-7.125	2021-2030	793,500	6.175-7.125	2021-2023	275,000
			1,014,000			459,000

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Bank loans repayable:		
Within one year	220,500	184,000
In the second year	166,500	164,000
In the third to fifth years, inclusive	627,000	111,000
	1,014,000	459,000

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

Notes:

The Group's bank loans are secured by:

- (a) Pledges of equity interests in the following subsidiaries of the Group:
- (i) 100% equity interest in Yibin Shenzhou Tianli Education Development Limited has been pledged for a bank loan of RMB80,000,000 as at 31 December 2019;
 - (ii) 100% equity interest in Xichang Shenzhou Tianli Education Development Limited has been pledged for bank loans of RMB99,000,000 and RMB108,000,000 as at 30 June 2020 and 31 December 2019, respectively;
 - (iii) 100% equity interest in Neijiang Shenzhou Tianli Education Development Limited has been pledged for bank loans of RMB100,000,000 as at 30 June 2020 and 31 December 2019, respectively;
 - (iv) 100% equity interest in Guangyuan Shenzhou Tianli Education Development Limited has been pledged for bank loans of RMB79,000,000 and RMB80,000,000 as at 30 June 2020 and 31 December 2019, respectively;
 - (v) 100% equity interest in Deyang Shenzhou Tianli Education Consulting Limited has been pledged for a bank loan of RMB150,000,000 as at 30 June 2020 (31 December 2019: Nil);
 - (vi) 100% equity interest in Dazhou Shenzhou Tianli Education Consulting Limited has been pledged for a bank loan of RMB150,000,000 as at 30 June 2020 (31 December 2019: Nil);
 - (vii) 100% equity interest in Chengdu Tianli Aizhihui Education Consulting Limited has been pledged for a bank loan of RMB200,000,000 as at 30 June 2020 (31 December 2019: Nil); and
 - (viii) 100% equity interest in Weifang Shenzhou Tianli Education Consulting Limited has been pledged for a bank loan of RMB66,000,000 as at 30 June 2020 (31 December 2019: Nil).

- (b) Rights over tuition or boarding fees of the following schools:
- (i) Rights over tuition fees of Luzhou Tianli School and Luzhou Longmatan Tianli Elementary School have been pledged for aggregate bank loans of RMB91,000,000 as at 31 December 2019;
 - (ii) Rights over boarding fees of Yibin Tianli School have been pledged for a bank loan of RMB80,000,000 as at 31 December 2019;
 - (iii) Rights over boarding fees of Guangyuan Tianli School have been pledged for bank loans of RMB79,000,000 and RMB80,000,000 as at 30 June 2020 and 31 December 2019, respectively;
 - (iv) Rights over tuition, boarding and other fees of Xichang Tianli School have been pledged for bank loans of RMB99,000,000 and RMB108,000,000 as at 30 June 2020 and 31 December 2019, respectively;
 - (v) Rights over tuition and boarding fees of Weifang Tianli School have been pledged for a bank loan of RMB66,000,000 as at 30 June 2020 (31 December 2019: Nil);
 - (vi) Rights over tuition, boarding and other fees of Deyang Tianli School have been pledged for a bank loan of RMB150,000,000 as at 30 June 2020 (31 December 2019: Nil);
 - (vii) Rights over tuition, boarding and other fees of Neijiang Tianli School have been pledged for a bank loan of RMB100,000,000 as at 30 June 2020 (31 December 2019: Nil);
 - (viii) Rights over tuition, boarding and other fees of DaZhou Tianli School have been pledged for a bank loan of RMB150,000,000 as at 30 June 2020 (31 December 2019: Nil);
 - (ix) Rights over tuition and boarding fees of Chengdu Longquanyi District Tianli Elementary School and Chengdu Longquanyi District Tianli Kindergarten Company Limited have been pledged for a bank loan of RMB200,000,000 as at 30 June 2020 (31 December 2019: Nil);
 - (x) Rights over tuition, boarding and other fees of Luzhou Tianli School have been pledged for a bank loan of RMB90,000,000 as at 30 June 2020 (31 December 2019: Nil); and
 - (xi) Rights over tuition, boarding and other fees of Luzhou Longmatan Tianli Elementary School have been pledged for a bank loan of RMB30,000,000 as at 30 June 2020 (31 December 2019: Nil).
- (c) Rights over rental income of the following schools:
- (i) Rights over rental income of Dazhou Shenzhou Tianli Education Consulting Limited have been pledged for a bank loan of RMB150,000,000 as at 30 June 2020; and
 - (ii) Rights over rental income of Chengdu Tianli Huixin Education Consulting Limited have been pledged for a bank loan of RMB200,000,000 as at 30 June 2020.
- (d) In addition, Mr. Luo has guaranteed the Group's bank loans of RMB99,000,000 and RMB108,000,000 as at 30 June 2020 and 31 December 2019, respectively.

19. SHARE CAPITAL

Shares

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Authorised:		
10,000,000,000 ordinary shares of HK\$0.1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
2,075,000,000 ordinary shares of HK\$0.1 each	<u>207,500</u>	<u>207,500</u>
Equivalent to approximately (<i>in RMB'000</i>)	<u>176,375</u>	<u>176,375</u>

20. SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the “**Scheme**”), effective from 17 December 2018. The purpose of the Scheme is (i) to recognise 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 the Company’s shares.

The Scheme shall be effective from 17 December 2018 and shall continue in full force and effect for 10 years or until such date of early termination as determined by the Company’s board of directors (the “**Board**”), whichever is earlier. The maximum number of shares may be granted under the Scheme in aggregate shall be no more than 75,000,000 shares.

The Scheme shall be subject to the administration of the Board and a trustee (the “**Trustee**”) in accordance with the rules governing the Scheme (“**Scheme Rules**”) and the trust deed.

A selected participant shall be entitled to receive the award shares held by the Trustee in accordance with the following vesting schedule and the selected participants shall be responsible for all the taxes, stamp duty, levies and charges applicable to the grant and vesting of the award shares:

- i. 10% of a selected participant’s award shares shall become vested upon each of the first anniversary, the second anniversary, the third anniversary, the fourth anniversary and the fifth anniversary after the grant date; and
- ii. 50% of a selected participant’s award shares shall become vested upon the sixth anniversary after the grant date.

Vesting of the award shares will be conditional on the selected participant remaining as an employee of the Group until and on each of the relevant vesting date and his/her execution of the relevant documents to effect the transfer from the Trustee. In the event that the selected participant ceases to be an employee of the Group before all award shares are vested, the Trustee shall repurchase the unvested award shares at the repurchase price from the resources contributed by the Group. The repurchased shares shall be held under the trust and be granted to other selected participant(s) as instructed by the Board.

The Trustee shall not exercise the voting rights in respect of any shares held under the trust including but not limited to the award shares.

As at 30 June 2020, the Group has set up a trust specifically for the management of the share award scheme through the trust, and a total of 34,355,000 shares of the Company have been purchased by the Trustee.

Pursuant to share award notices issued on 15 December 2019 to those selected participants, an aggregate of 7,724,000 shares (the “**2019 Awarded Shares**”) of the Company of HK\$0.10 each were granted at RMB1.60 (equivalent to approximately HK\$1.78) per 2019 Awarded Share and the earliest vesting date of the 2019 Awarded Shares is 1 September 2020. There is no other performance target required except that the eligible participant remains as an employee of the Group. The fair value of services received in return for shares granted is measured by reference to the fair value of the shares granted.

The fair value of the shares granted is based on the difference between the market price of the shares and the subscription price paid by the selected participants at the grant date, adjusted for the exclusion of expected dividends to be received in the vesting period.

During the Period, total share award scheme expenses of RMB1,480,000 were charged to profit or loss (six months ended 30 June 2019: Nil).

21. DIVIDEND

At the meeting of the Directors held on 28 August 2020, the Directors resolved not to pay an interim dividend for the Period (six months ended 30 June 2019: Nil).

22. COMMITMENTS

The Group had the following capital commitments as at 30 June 2020 and 31 December 2019:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Contracted but not provided for:		
Property, plant and equipment	844,440	1,528,845

23. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Name and relationships of related parties

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

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

(b) Outstanding balances with related parties

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
<i>Amounts due from related parties</i>			
<u>Trade in nature</u>			
Luzhou Tianli Kindergarten	(i)	15	15
<u>Non-trade in nature</u>			
Luzhou Tianli Property		20	20
Luzhou Tianli Kindergarten	(ii)	167	167
		187	187
Total		202	202
<i>Prepayments, deposits and other receivables</i>			
<u>Non-trade in nature</u>			
Nanyuan Construction	12	8,211	43,092
<i>Amount due to a related party</i>			
<u>Non-trade in nature</u>			
Nanyuan Construction		406,717	217,956

Notes:

- (i) Included in the amount due from Luzhou Tianli Kindergarten were management fees receivable for the provision of kindergarten management services provided by the Group amounting to RMB15,000 as at 30 June 2020 (31 December 2019: RMB15,000).
- (ii) The non-trade balances were interest-free advances granted to Luzhou Tianli Kindergarten. These balances were unsecured, interest-free and had no fixed terms of repayment.
- (iii) Except for the amounts due from related parties as disclosed in note (i) above and the prepayments made to Nanyuan Construction in relation to the construction services to be provided by Nanyuan Construction, the amounts due from related parties were unsecured, interest-free and had no fixed terms of repayment.

(c) **Transactions with related parties**

(1) ***Construction of property, plant and equipment***

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Nanyuan Construction	739,891	613,528

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

(2) ***Rental of properties***

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Gulin Shengzhong*	–	–
Tianli Real Estate	–	68
	–	68

* The Group rented certain properties from Gulin Shengzhong. Rental was charged based on prices mutually agreed between the Group and the related parties. Upon the adoption of IFRS 16, the above lease contract with Gulin Shengzhong was recognised and measured as a right-of-use asset. During the Period, the rental fee payable by the Group to Gulin Shengzhong amounted to RMB141,000 (six months ended 30 June 2019: RMB193,000).

(3) ***Provision of management services and sale of goods***

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Luzhou Tianli Kindergarten	81	124

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

(4) Others

During the Period, a bank loan of RMB99,000,000 (31 December 2019: RMB108,000,000) of the Group has been guaranteed by Mr. Luo. Details of this guarantee are disclosed in note 18 to the interim condensed consolidated financial information.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries, allowances and benefits in kind	565	806
Equity-settled share award scheme expenses	383	—
Pension scheme contributions	4	53
	952	859

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts	
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Financial assets at fair value through profit or loss	6,300	4,200
Long-term interest-bearing bank loans	793,500	275,000
	799,800	279,200

	Fair values	
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Financial assets at fair value through profit or loss	6,300	4,200
Long-term interest-bearing bank loans	793,500	275,000
	799,800	279,200

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

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

The fair values of the non-current interest-bearing bank loans and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 30 June 2020 was assessed to be insignificant.

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

Fair value hierarchy

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

Assets measured at fair value:

	Fair value measurement using			Total RMB' 000
	Quoted prices in active markets Level 1 RMB' 000	Significant observable inputs Level 2 RMB' 000	Significant unobservable inputs Level 3 RMB' 000	
<i>Financial assets at fair value through profit or loss</i>				
30 June 2020	–	6,300	–	6,300
31 December 2019	–	4,200	–	4,200

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets Level 1 <i>RMB'000</i>	Significant observable inputs Level 2 <i>RMB'000</i>	Significant unobservable inputs Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Interest-bearing bank loans, non-current portion</i>				
30 June 2020	<u>–</u>	<u>–</u>	<u>793,500</u>	<u>793,500</u>
31 December 2019	<u>–</u>	<u>–</u>	<u>275,000</u>	<u>275,000</u>

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

Except as disclosed above, the Group did not have any financial assets and liabilities measured at fair value as at 30 June 2020 (31 December 2019: Nil).

25. EVENTS AFTER THE REPORTING PERIOD

No significant events that require additional disclosure or adjustments occurred after the reporting period.

26. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the board of directors on 28 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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 prekindergarten children. We are one of the largest private K-12 school operators in Western region of the PRC. As at 30 June 2020, we have approximately 40,833 students enrolled in the K-12 schools in our school network, representing an increase of 35.5% comparing with approximately 30,145 students enrolled as at 30 June 2019.

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. On 6 May 2020, the Company was awarded with "2019 Private Enterprise of the Year for Poverty Elimination in Liangshan (2019年度助力涼山脫貧攻堅行動先進民營企業)" by Sichuan Chambers of Commerce, Sichuan Poverty Alleviation and Development Bureau, Sichuan Glory Society and Sichuan Branch of Agriculture Bank of China.

Student Placement and Education Quality

Since our inception, our students have consistently achieved outstanding results in various academic examinations and contests, as well as in extra-curricular activities. For the six months ended 30 June 2020 (the "**Reporting Period**"), approximately 96.3% of the graduating high school students of our schools with high school programs which have graduating classes who participated in the National Higher Education Entrance Examination (known as "Gaokao") in the relevant cities where the schools are located were admitted to universities in the PRC, and approximately 75.5% were admitted to first-tier universities in the PRC.

Our Schools and Education Curriculum

We have established a school network consisting of (i) self-owned schools 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 30 June 2020, our school network consisted of 20 self-owned and 4 entrusted K-12 schools in operation in 16 cities in the provinces of Sichuan, Shandong, Guizhou, Yunnan, Henan and Inner Mongolia, which administered 13 high school programs, 17 middle school programs, 19 elementary school programs and 7 kindergarten programs. We also operate or license our brand to a total of 5 tutorial centers and 4 early childhood education centers.

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 at the dates indicated:

	Six months ended 30 June	
	2020	2019
Self-owned K-12 schools	2,538	2,127
Self-owned tutorial centers	80	80
Total	<u>2,618</u>	<u>2,207</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 are major in education or related subjects and show promising potential during our recruiting process. We also actively recruit teachers with extensive experiences from public schools and other private schools to expand our talent pool.

As at 30 June 2020, we have approximately 40,833 students enrolled in the self-owned and entrusted K-12 schools in our school network, representing a year-on-year increase of 35.5%. 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 30.3% from RMB438.1 million for the six months ended 30 June 2019 to RMB570.7 million for the Reporting Period, 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 six months ended 30 June 2019 and 30 June 2020:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Self-owned K-12 schools	554,718	420,090
Self-owned tutorial centers	12,624	14,391
Self-owned early childhood education center	1,485	570
Management and franchise fees received from entrusted and franchised schools	1,827	3,042
Total	<u>570,654</u>	<u>438,093</u>

Self-owned K-12 School

As at 30 June 2020, we owned and operated 20 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 Period, the Group recorded RMB554.7 million of revenue from our self-owned K-12 schools which represented 32.0% year-on-year increase and contributed to 97.2% of the Group's revenue for the Reporting Period, primarily driven by the increase in student enrollment and an increase in tuition fee rates for some of our self-owned K-12 schools.

The following table sets forth information about the revenue of our self-owned K-12 schools during the six months ended 30 June 2019 and 2020.

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from self-owned K-12 schools		
Tuition fees	397,480	291,998
Boarding fees	49,423	38,930
School canteen operations	107,815	89,162
Revenue from self-owned K-12 schools	<u>554,718</u>	<u>420,090</u>

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 or filing.

The following table illustrates the information on average tuition fees and boarding fees per student by school programs during the six months ended 30 June 2019 and 2020.

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Average tuition and boarding fees		
per student of our self-owned K-12 school¹		
High schools	11.00	11.31
Middle schools	12.33	12.13
Elementary schools	13.51	11.90
Kindergartens	9.24	13.79

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

Information about our tutorial centers and early childhood education centers

Our self-owned and entrusted tutorial centers offer tutoring services to K-12 students and 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 30 June 2020:

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)
Luzhou	3	3	After-school tutoring services; music, art and sports tutoring services; Pre-school education; English tutoring services	2011(1) 2013(1) 2017(4)	Self-owned (4) Franchised (2)
Yibin	2	–	After-school tutoring services; music, art and sports tutoring services	2014 (1) 2015 (1)	Self-owned (2)

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

During the Reporting Period, the Group recorded a revenue of RMB12.6 million (2019: RMB14.4 million) from our self-owned tutorial centers which represented 12.3% year-on-year decrease primarily due to the decrease in the numbers of self-owned tutorial centers. During the Reporting Period, 5 of our self-owned tutorial centers have been closed and entered the process of deregistration.

Self-owned early childhood education center

During the Reporting Period, we owned and operated an early childhood education center in Luzhou. Due to increase in the number of students, the revenue from self-owned early childhood center increased from RMB0.6 million for the six months ended 30 June 2019 to RMB1.5 million for the Reporting Period.

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, we also provide school management services for entrusted K-12 schools and tutorial centers. During the Reporting Period, we set to open two entrusted K-12 schools namely, Luxian Tianli Primary School in Luzhou and Xiangshan Tianli School in Ningbo for the forthcoming 2020/2021 school year.

In addition, we license the right to use our brand to franchised early childhood education centers. As at 30 June 2020, there were 1 and 2 franchised early childhood education centers in Chongqing and Luzhou respectively.

As affected by the COVID-19 epidemic, revenue from management and franchise fees decreased by 39.9% from approximately RMB3.04 million for the six months ended 30 June 2019 to approximately RMB1.83 million during the Reporting Period.

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 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's 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.

Impacts of COVID-19 epidemic

Since the epidemic, the PRC government has implemented various emergency measures to contain the spread of COVID-19. Among others, the resumption of the classroom teaching, offices and construction works in the PRC has been delayed after the Chinese New Year holidays. Gaokao and final exams in our K-12 schools have been generally postponed. Student recruitment, communication and tuition payment have also been slowed down as we canceled some of the open days.

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.

There has not been any significant delay of the construction of the school campuses that are set to launch in September 2020 as the topping out works of the relevant campuses have already been completed before the Chinese New Year. In addition, our capital expenditure has reduced as the prices of building materials and labor costs generally decreased.

Thanks to the increased enrollment, our revenue from boarding fee and school canteen operations maintained on the increase during the Reporting Period. We refunded the boarding fee, after retaining all relevant direct costs, as required by the education departments of relevant local governments. The shortened semester has also led to reduce food and utility costs therefore the overall effect of the epidemic on our operating profit was not material. Please see the paragraph headed “Revenue” of the Financial Review in this announcement for details.

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 nationwide with our thorough understanding of the PRC private education market, 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 have entered into 4 agreements during the Reporting Period and another 2 agreements subsequent to the Reporting Period. Together with the agreements entered prior to the Reporting Period, we set out below details of the schools to be opened in the forthcoming years as at the date of this announcement.

School Name	Location	Estimated maximum capacity (Student enrollment)	Nature of operation
Dongying Tianli School (東營天立學校)	Dongying, Shandong Province	4,000	Self-owned
Rizhao Tianli School (日照天立學校)	Rizhao, Shandong Province	4,680	Self-owned
Jiange Tianli School (劍閣天立學校)	Guangyuan, Sichuan Province	4,000	Self-owned
Yichun Tianli School (宜春天立學校)	Yichuan, Jiangxi Province	6,000	Self-owned
Chengdu Pixian Tianli School (成都郫縣天立學校)	Chengdu, Sichuan Province	2,800	Self-owned
Luzhou Tianli Flagship School (瀘州天立旗艦學校)	Luzhou, Sichuan Province	5,000	Self-owned
Luxian Tianli School (瀘縣天立小學)	Luzhou, Sichuan Province	1,845	Entrusted
Xiangshan Tianli School (象山天立學校)	Ningbo, Zhejiang Province	2,400	Entrusted
Lanzhou Tianli School (蘭州天立學校)	Lanzhou, Gansu Province	6,000	Self-owned
Tongren Wanshan Tianli School (銅仁市萬山區天立學校)	Tongren, Guizhou Province	3,000	Self-owned
Chuzhou Lai'an Tianli School (滁州市來安縣天立學校)	Chuzhou, Anhui Province	5,000	Self-owned
Chuxiong Tianli School (楚雄天立學校)	Chuxiong, Yunnan Province	4,680	Self-owned
Jining Tianli School (濟寧天立學校)	Jining, Shandong Province	6,000	Self-owned
Kaili Tianli School (凱里天立學校)	Kaili, Guizhou Province	5,000	Self-owned
Guizhou Kaiyang Tianli School (貴州開陽天立學校)	Guiyang, Guizhou Province	3,000	Self-owned
Ulanqab Tianli School (內蒙古烏蘭察布天立學校)	Ulanqab, Inner Mongolia	4,620	Self-owned

Regulatory Update

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 nonprofit 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 interim 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 at 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 at 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 30.3% from RMB438.1 million for the six months ended 30 June 2019 to RMB570.7 million for the Reporting Period, 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 34.1% from RMB307.0 million for the six months ended 30 June 2019 to RMB411.6 million for the Reporting Period, primarily as a result of the increase of student enrollment. We opened seven K-12 schools which classes commenced in 2019/2020 school year in 2019. Meanwhile, there was an increase in the number of students enrolled in our existing self-owned K-12 schools.

Revenue from boarding fees increased by 27.0% from RMB38.9 million for the six months ended 30 June 2019 to RMB49.4 million for the Reporting Period, primarily driven by an increase in student enrolment.

Revenue from school canteen and convenience store operations increased by 20.9% from RMB89.2 million for the six months ended 30 June 2019 to RMB107.8 million for the Reporting Period, primarily as a result of increased student enrollment.

Revenue from management fees decreased by 39.9% from approximately RMB3.0 million for the six months ended 30 June 2019 to approximately RMB1.8 million for the Reporting Period, primarily because the income of our entrusted schools decreased for the COVID-19 epidemic during the Reporting Period.

Costs of Principal Activities

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Labor costs	169,382	143,740
Teaching related costs	10,067	9,359
Depreciation and amortization	55,408	37,223
Material consumption	48,994	46,906
Utilities	8,873	9,263
Others	2,668	1,300
Total	295,392	247,791

Labor costs increased by 17.8% from RMB143.7 million for the six months ended 30 June 2019 to RMB169.4 million for the Reporting Period, primarily because we hired new teachers as a result of the increased student enrollment and the expansion of our school network while raising the salaries and wages of our teachers to attract and retain well-qualified teaching staff.

Teaching related costs increased by 7.6% from RMB9.4 million for the six months ended 30 June 2019 to RMB10.1 million for the Reporting Period, primarily because of an increase in our teachers' teaching activities resulting from the increased student enrollment.

Depreciation and amortization costs increased by 48.9% from RMB37.2 million for the six months ended 30 June 2019 to RMB55.4 million for the Reporting Period, primarily because we opened seven self-owned K-12 schools which classes commenced in 2019/2020 school year in 2019.

Material consumption costs increased by 4.5% from RMB46.9 million for the six months ended 30 June 2019 to RMB49.0 million for the Reporting Period, primarily because of the increased student enrollment.

Utilities decreased slightly by 4.2% from RMB9.3 million for the six months ended 30 June 2019 to RMB8.9 million for the Reporting Period, primarily because the semester has been shortened for the COVID-19 epidemic.

Other costs increased by 105.2% from approximately RMB1.3 million for the six months ended 30 June 2019 to approximately RMB2.7 million for the Reporting Period, primarily due to the increased maintenance costs for the existing campuses.

Gross Profit and Gross Profit Margin

The Group's gross profit for the Reporting Period were approximately RMB275.3 million, representing an increase of 44.6% from approximately RMB190.3 million for the six months ended 30 June 2019. The Group's gross profit margin for the Reporting Period was approximately 48.2%, representing a increase from approximately 43.4% for the six months ended 30 June 2019 due to increase in number of students and the waiver of social insurance fee during COVID-19 epidemic.

Other Income and Gains

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

Other income and gains decreased from RMB12.4 million for the six months ended 30 June 2019 to RMB11.3 million for the Reporting Period, primarily because of decrease in interest income from banks.

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 by 37.1% from RMB42.7 million for the six months ended 30 June 2019 to RMB58.6 million for the Reporting Period, primarily as a result of an increase in administrative staff costs.

Administrative staff costs increased by 33.3% from RMB28.8 million for the six months ended 30 June 2019 to RMB38.4 million for the Reporting Period, primarily because we recruited additional administrative staff and management personnel for the K-12 schools opened in 2019 and 2020 and raised their salaries.

In order to reflect the core of our education philosophy “Six Establishments and One Accomplishment (六立一達)”, we design and develop our education programs, namely the “Lida Program”. Pursuant to the overall construction plan of Lida Program, the Group is conducting researches and will develop the products of Lida Program, including teaching materials, repositories, examination databases, courses and other resources, and the related expenses will be recognized as research expenditure or development expenditure, respectively, according to the research stage of the project. As such, the Group recorded research expenditure of approximately RMB1.5 million for the Reporting Period (six months ended 30 June 2019: Nil). Research expenditure amounted to approximately 0.25% of the total revenue of the Group. There was no capitalized development expenditure for the Reporting Period.

Interest Expenses

Interest expenses increased from RMB3.5 million for the six months ended 30 June 2019 to RMB7.4 million for the Reporting Period, primarily because of increase in bank loans for financing the working capital requirement.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

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

As at 30 June 2020, we had net current liabilities of approximately RMB700.6 million (31 December 2019: RMB667.4 million). The increase in net current liabilities was mainly attributable to (i) purchase of property, plant and equipment for the newly opened schools; and (ii) payment of dividends declared in 2019.

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 30 June 2020, the Group had cash and cash equivalents of approximately RMB775.0 million (31 December 2019: approximately RMB631.4 million).

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flow from operating activities	530,922	666,905
Net cash flow used in investing activities	(670,976)	(358,370)
Net cash flow from/(used in) financing activities	458,563	(113,405)
Net increase in cash and cash equivalents	318,509	195,130
Effect of foreign exchange rate changes, net	5,545	1,808
Cash and cash equivalents at beginning of period	450,995	707,277
Cash and cash equivalents at end at the period	<u>775,049</u>	<u>904,215</u>

As at 30 June 2020, cash and cash equivalents amounted to RMB775.0 million. It also represented a increase of RMB324.1 million compared with RMB451.0 million as at 31 December 2019. The increase in cash and cash equivalents was primarily attributable to (i) net cash flow of RMB530.9 million from operating activities resulting from expansion in operation; (ii) net cash flow of RMB671.0 million used in investing activities for building eight new schools which will begin operation in the fall semester of 2020; and (iii) net cash flow of RMB458.6 million from financing activities resulting from borrowing from banks.

BORROWINGS AND GEARING RATIO

As at 30 June 2020, the Group had borrowings of approximately RMB1,014.0 million which was denominated in RMB (31 December 2019: RMB459.0 million), among which RMB170.0 million was at fixed interest rate. The Group's bank borrowings were primarily used in financing the working capital requirement of its operations and school constructions.

As at 30 June 2020, the gearing ratio of the Group, calculated as the total interest-bearing borrowings divided by the total equity, was approximately 38.8% (31 December 2019: approximately 18.5%).

CHARGE OVER ASSETS AND RIGHTS

Save as disclosed in note 18 under the section of “Notes to interim condensed financial information”, the Group did not have additional assets or rights pledged as at 30 June 2020 and 30 June 2019.

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 30 June 2020, 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.

TREASURY POLICIES

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

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

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

CAPITAL EXPENDITURES

Our capital expenditures primarily related to the construction of new self-owned schools, the maintenance and upgrade of our existing self-owned schools, and the purchase of additional educational facilities and equipment for our self-owned schools. The Group’s capital expenditures consisted of purchase or construction costs relating to property, equipment, prepaid land lease payments and other intangible assets. For the Reporting Period, our capital expenditures were RMB916.6 million (six months ended 30 June 2019: RMB962.0 million), which we funded primarily through cash generated from operations, bank facilities, and net proceeds received from the global offering in July 2018.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities (31 December 2019: Nil).

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments contracted but not provided for property, plant and equipment amounting to RMB844.4 million (31 December 2019: RMB1,528.8 million).

SEGMENT INFORMATION

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

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 HKD1,478.63 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 (HKD million)				Expected Time for the Use of Unutilized Proceeds (Note)
	Percentage	Available	Utilized	Unutilized	
Expansion of our school network	60%	887.18	671.69	215.49	On or before December 2020
Repayment of bank loans	30%	443.59	403.56	40.03	On or before December 2020
Working Capital and general corporate purposes	10%	147.86	134.38	13.48	On or before December 2020
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	

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

The following table illustrates the net proceeds utilized for expansion of our school network as at 30 June 2020:

As at 30 June 2020
(HKD 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)	94.8
Dazhou Tianli School (達州市天立學校)	114.41
Zunyi Xinpu 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)	132.35
Dongying Tianli School (東營天立學校)	47.68
Total	671.69

PLAN TO COMPLY WITH THE QUALIFICATION REQUIREMENT

We have adopted a specific plan and have commenced taking concrete steps which we reasonably believe are meaningful endeavors to demonstrate compliance with the relevant qualification and high quality of education held by a foreign investor of Sino-foreign joint venture private school for PRC students under the Regulations on Sino-foreign Cooperation in Operating Schools of the PRC 《中華人民共和國中外合作辦學條例》 (“**Qualification Requirement**”). These include (i) entering into cooperation agreements with reputable international education institutions; and (ii) communicating or negotiating with certain experienced and reputable overseas education service providers exploring potential opportunities of further cooperation.

In anticipation of potential overseas expansion of our business, we are negotiating for cooperation opportunities with educational institutions in United Kingdom, Canada, and other overseas regions. The existing management team of the target educational institution will be retained to take the lead in the daily operation and management with the participation of our representatives so that we can gain the relevant overseas experience.

We expect to invest up to USD30 million for the acquisition of K-12 school(s) in United Kingdom, Canada and other overseas regions, which will be financed by our internal resources and/or external financing, depending on the cash flow position and the size of the acquisition(s). It is our acquisition strategy that the acquisition should not be of such size which may have any material adverse impact on our Group's normal business, financial condition, results of operations and specifically our cost structure, whether we are acquiring a controlling stake in the K-12 school or not.

The Company is of the view that the steps taken by our Group, that is, the overseas expansion plan is reasonable and appropriate to demonstrate compliance with the Qualification Requirement.

OVERALL PERFORMANCE AND COMPLIANCE WITH THE STRUCTURED CONTRACTS

Our Group has adopted certain measures to ensure the effective operation of our Group with the implementation of the Structured Contracts (defined in the prospectus of the Company dated 28 June 2018 issued by the Company in relation to its listing of its shares on the Main Board of the Stock Exchange) which we obtain control over and derive the economic benefits from our operating entities in PRC as the laws, regulations and regulatory practice generally prohibit or restrict foreign ownership in the private education. Each of our Directors has confirmed that he/she, and his/her associates, do not have any interest in any business or interests that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group. The Company is not aware of any non-performance of the Structured Contracts or non-compliance with such aforementioned measures as at the date of this announcement.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

EVENTS AFTER THE REPORTING PERIOD

No significant events that require additional disclosure or adjustments occurred after the Reporting Period.

COMPETITION AND CONFLICT OF INTEREST

None of the Directors or the controlling shareholders (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)) of the Company (the “**Controlling Shareholders**”) or their respective close associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has or may have any other conflict of interests with the Group during the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Directors are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 of the Listing Rules. In the opinion of the Board, the Company has complied with the CG Code during the six months ended 30 June 2020, except for the deviation from provision A.2.1 of the CG Code which is explained below:

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as the guidelines for the Directors' dealings in the securities of the Company. Upon specific enquiries being made with all Directors, each of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2020.

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

For the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

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

The Audit Committee has jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the unaudited interim results for the six months ended 30 June 2020) of the Group. The Audit Committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at (www.hkexnews.hk) and the Company’s website at (<http://www.tianlieducation.com>). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to the shareholders of the Company and will be available on the above websites in due course.

APPRECIATION

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

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

The PRC, 28 August 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.