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

2019
ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Luo Shi *(Chairman)*
Ms. Yang Zhaotao
Mr. Wang Rui

Non-executive Director

Mr. Tian Mu

Independent Non-executive Directors

Mr. Liu Kai Yu Kenneth
Mr. Yang Dong
Mr. Cheng Yiqun

BOARD COMMITTEES

Audit Committee

Mr. Liu Kai Yu Kenneth *(Chairman)*
Mr. Cheng Yiqun
Mr. Yang Dong

Remuneration Committee

Mr. Cheng Yiqun *(Chairman)*
Mr. Wang Rui
Mr. Yang Dong

Nomination Committee

Mr. Cheng Yiqun *(Chairman)*
Mr. Luo Shi
Mr. Liu Kai Yu Kenneth

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

JOINT COMPANY SECRETARIES

Mr. Wang Rui
Ms. Zhang Xiao *ACIS, ACS*

AUTHORISED REPRESENTATIVES

Mr. Wang Rui
Ms. Zhang Xiao

LEGAL ADVISOR AS TO HONG KONG LAW

Jingtian & Gongcheng LLP
Suite 3203-3207, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

Red Solar Capital Limited
11th Floor, Kwong Fat Hong Building
1 Rumsey Street
Sheung Wan
Hong Kong

REGISTERED OFFICE IN CAYMAN ISLANDS

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTER IN THE PRC

Tower T25
Qingyang Industrial Zone
Chengdu
Sichuan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKS

Industrial and Commercial Bank of China
Agricultural Bank of China
Baoshang Bank

STOCK CODE

1773

COMPANY WEBSITE

http://www.tianlieducation.com

Corporate Profile

We are a leading private education service provider in Western region of the PRC. We primarily offer K-12 educational services, supplemented by tutoring services for K-12 students and pre-kindergarten children. There were approximately 39,926 students enrolled in the K-12 schools in our school network as of the end of the 2019 fall semester. We have established a school network consisting of (i) self-owned schools which are owned and operated by us, (ii) entrusted schools to which we provide management services, and (iii) franchised early childhood education centers to which we have licensed the right to use our brand. As at 31 December 2019, our school network consisted of 24 K-12 schools in operation 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, 10 tutorial centers and 5 early childhood education centers.

We have an over 17-year track record in providing educational services that focus on the development of each child's strengths and potential and promotion of life-long learning and growth. We design and develop our educational programs to reflect the core of our educational philosophy, "Six Establishments and One Accomplishment (六立一達)", emphasizing the importance of solid academic performance in core subject areas while at the same time encouraging our students to explore individual interests and enhance physical fitness, and nurturing students' creativity, communication skills, independent thinking and sense of social responsibility.

Since our inception, our students have consistently achieved outstanding results in various academic examinations and contests, as well as in extra-curricular activities. In 2017, 2018 and 2019, approximately 95.6%, 94.4% and 93.6%, respectively, of the graduating high school students of our schools with high school programs which have graduating classes who participated in the Gaokao in the cities in which the relevant schools are located were admitted to universities in the PRC, and approximately 71.6%, 63.6% and 68.6%, respectively, were admitted to first tier universities in the PRC.

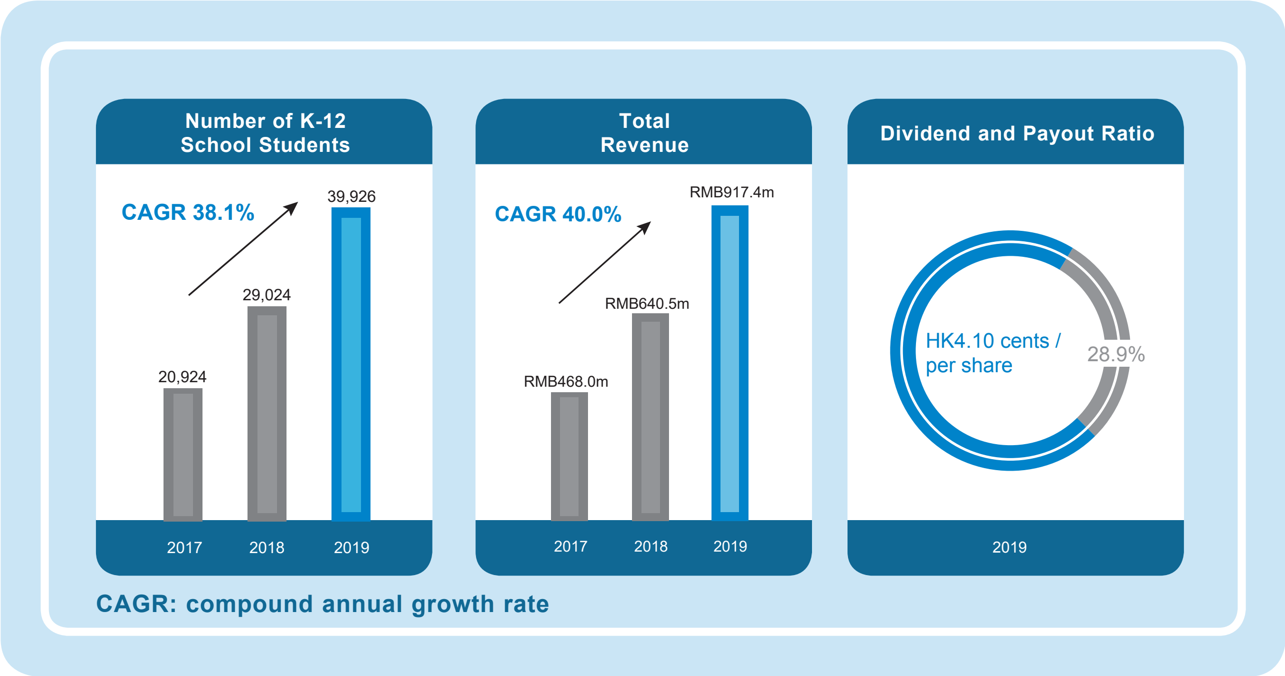
We have established a centralized and standardized management system which we believe is essential to the success of our business as it enables us to integrate our resources, enhance our operating efficiency and ensure the quality of our educational services. With our management system, we have been able to quickly expand our school network into new geographic locations and at the same time implement our quality standards across our school network. We opened seven new K-12 schools in 2019. We have entered five agreements to open K-12 schools during the Reporting Year. We are actively exploring opportunities in other second- and third-tier cities for our future expansion. 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.

Financial Highlights

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

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

Chairman's Statement



Dear Shareholders,

On behalf of the board of directors of Tianli Education International Holdings Limited, I am pleased to present the consolidated annual results of the Group for the year ended 31 December 2019.

Results and Dividends

We are delighted to have witnessed great leaps of our Group in expansion of school network, growing recognition by stakeholders and financial growth. Financially, our Group achieved the growth in revenue by 43.2% to RMB917.4 million, which has driven an increase of 41.6% in the adjusted net profit to RMB265.0 million during 2019.

These accomplishments would not have been completed without your trust and support in our Company, therefore, the Board recommends the payment of a final dividend of HK4.10 cents per share for the year ended 31 December 2019.

Key Developments

Having entered the second year after the listing on the Stock Exchange, we have opened seven K-12 schools, including Chengdu Longquanyi Tianli Elementary School and Dazhou Tianli School in Sichuan province. Following the change of Ulanqab Jining Tianli School from an entrusted school to a self-owned school, our presence continued to stretch to other provinces, namely Shandong, Henan, Guizhou and Yunnan with the openings of Weifang Tianli School, Zhoukou Tianli School, Zunyi Xipu Tianli School, Baoshan Tianli School and Yiliang Tianli School. At presence, our school network spans 16 cities nationwide.

Expanding our presence nationwide is part of strategy to enhance our brand influence and strengthen our position to become one of the leading K-12 school network operators in the PRC, therefore, we continue to seek cooperation with the local governments. During the Reporting Year, we have entered into agreements with the governments of Tongren, Lai'an, Yichun, Jiange and Lanzhou to open new schools. More details about our pipelines can be read on the section headed " Management Discussion and Analysis – School Network Development Plan".

Our Mission and Education Quality

We uphold the vision of "Creating excellent Tianli Education and fostering fruitful lives for students and teachers (締造卓越天立教育，成就師生幸福人生)" and the core educational philosophy of "Six Establishments and One Accomplishment (六立一達)", and devote ourselves to provide quality private education services to students. In 2019, 93.6% of our high school graduates were admitted in universities and 68.6% of which were admitted in first-tier universities including but not limited to Tsinghua University, Peking University, Zhejiang University, Harbin Institute of Technology, and Renmin University of China. Furthermore, 3 of the high school graduates achieved number one in their respective cities and approximately 32 students ranked among Top 10 across 4 cities in Gaokao.

We are committed to providing our students with all-round development. Our students and graduates received wide spectrum of accolades in academy, arts, language skills and scientific innovation. For instance, one of our graduates was selected as "China's Innovators Under 35" by MIT Technology Review during the Reporting Year. In fall, we were awarded with "China Education Role Model Company" (中國教育行業標杆集團) in Echo" Tencent Net Annual Education Ceremony (騰訊迴響中國•2019年度教育盛典), reflecting the extensive recognition of our achievements in education.

Community Investment

We do not rest at establishing ourselves but also others. Tianli always devote to philanthropy, and serve as a role model for our students and the community. In 2019, we were recognized as "Social Enterprise in China's Education Sector" (中國教育行業公益企業) in the 10th Xinhua Education Forum (新華網第十屆中國教育論壇). For the epidemic of COVID-19, we have also offered prompt and comprehensive support to epidemic prevention and control in Wubei by donating 33,000 surgical masks and raising RMB1 million of donation.

Outlook

Our brand awareness has been significantly increasing since our listing in 2018, smoothing our paths in school expansion. Even though the COVID-19 epidemic has delayed our staff recruitment, school open days and new school construction, the overall impacts on our operation and development have been manageable. As a result of stringent hygiene control maintained in our campuses and school network, none of our students nor staff have been infected. Our education has not stopped from suspension of class. During the epidemic, our teaching staff continue to lecture and interact with students and parents online. We believe the prompt actions have reflected our advantages in technologies, network scale, as well as the crisis management capacities of the management team.

Looking ahead, we will leverage the reputation among parents and students to extend our presence nationwide and expand some of our existing K-12 schools. Our commitment in education remains steadfast. For our mission to foster fruitful lives of our students, we may explore the opportunities across different areas in the education sector including international schools, vocational education and tertiary education, and continue to provide high-quality education and diverse school and extracurricular activities with a view towards better education of the PRC.

Acknowledgement

Last but not the least, on behalf of the Board, I would like to share our appreciation to all students, parents, government authorities and our Shareholders for the continued support for and trust in our Group. I also would like to express my gratitude to our staff for the dedication which contributes to our Group's promising performance in all aspects.

Luo Shi
Chairman

20 March 2020

Financial Summary

RESULTS OF OPERATIONS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**917,355**	640,533	468,017	326,355	218,044
Cost of sales	**(541,040)**	(371,483)	(270,072)	(231,863)	(159,888)
Gross profit	**376,315**	269,050	197,945	94,492	58,156
Other income and gains	**29,869**	50,663	14,835	44,492	21,907
Selling and distribution expenses	**(23,428)**	(11,309)	(10,135)	(8,038)	(8,660)
Administrative expenses	**(90,836)**	(87,552)	(50,306)	(42,709)	(41,252)
Other expenses	**(4,489)**	(2,059)	(1,317)	(556)	(1,343)
Finance costs	**(12,604)**	(17,606)	(14,009)	(12,601)	(9,478)
Share of profit of an associate	**1,514**	1,221	256	789	1,076
PROFIT BEFORE TAX	**276,341**	202,408	137,269	75,869	20,406
Income tax expense	**(6,881)**	(1,229)	(1,024)	(1,121)	(2,158)
PROFIT FOR THE YEAR	**269,460**	201,179	136,245	74,748	18,248

ASSETS AND LIABILITIES

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**4,013,171**	2,494,472	1,517,324	1,196,668	891,808
Total current assets	**709,842**	1,301,315	388,641	420,104	329,001
Total current liabilities	**1,377,215**	1,019,917	653,970	616,247	520,775
NET CURRENT (LIABILITIES)/ASSETS	**(667,373)**	281,398	(265,329)	(196,143)	(191,774)
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,345,798**	2,775,870	1,251,995	1,000,525	700,034
Total non-current liabilities	**864,391**	483,908	415,377	443,625	219,440
Net assets	**2,481,407**	2,291,962	836,618	556,900	480,594
EQUITY					
Equity attributable to owners of the Company					
Issued capital	**176,375**	176,375	–	–	–
Reserves	**2,262,608**	2,082,163	812,340	538,853	467,738
	2,438,983	2,258,538	812,340	538,853	467,738
Non-controlling interests	**42,424**	33,424	24,278	18,047	12,856
Total equity	**2,481,407**	2,291,962	836,618	556,900	480,594

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 pre-kindergarten children. We are one of the largest private K-12 school operators in Western region of the PRC. As at the end of 2019 fall semester, we have approximately 39,926 students enrolled in the K-12 schools in our school network, representing an increase of 37.6% comparing with approximately 29,024 students enrolled as at the end of the 2018 fall semester.

Our Education Philosophy

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

Student Placement

Since our inception, our students have consistently achieved outstanding results in various academic examinations and contests, as well as in extra-curricular activities. For the Reporting Year, approximately 93.6% of graduating high school students of our schools with high school programs which have graduating classes who participated in Gaokao in the cities in which the relevant schools are located were admitted to universities in the PRC, and approximately 68.6% were admitted to first-tier universities in the PRC.

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

Our Schools and Education Curriculum

We have established a school network consisting of (i) self-owned schools which are owned and operated by us, (ii) entrusted schools to which we provide management services, and (iii) franchised early childhood education centers to which we have licensed the right to use our brand. As at 31 December 2019, our school network consisted of 24 K-12 schools in operation 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, 10 tutorial centers and 5 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:

	As at 31 December	
	2019	2018
Number of full-time teachers		
Self-owned K-12 schools	**2,659**	2,004
Self-owned tutorial centers	**65**	75
Total	**2,724**	2,079

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

As at 31 December 2019, we have approximately 39,926 students enrolled in the self-owned and entrusted K-12 schools in our school network, representing a year-on-year increase of 37.6%. This increase is driven by the increase in the number of students enrolled in existing K-12 schools, which utilization rates will continue to increase and the increase in the number of students enrolled in the newly opened self-owned K-12 schools.

Financially, our revenue increased by 43.2% from RMB640.5 million for the year ended 31 December 2018 to RMB917.4 million for the Reporting Year, primarily driven by the increase of revenue from our self-owned K-12 schools.

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

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

Self-owned K-12 School

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

All of our K-12 schools except kindergartens are boarding schools. We charge students enrolled in our self-owned K-12 schools tuition fees, and for boarding students, boarding fees. For all of our self-owned grades 1-12 schools, tuition fees and boarding fees are generally paid in advance prior to the beginning of each school year. For our self-owned kindergartens, tuition fees are generally paid in advance at the beginning of every semester. During the Reporting Year, the Group recorded RMB876.0 million of revenue from our self-owned K-12 schools which represented 44.0% year-on-year increase and contributed to 95.5% of the Group's revenue for the Reporting Year, primarily driven by the increase in student enrollment and an increase in tuition fee rates for some of our self-owned K-12 schools.

The following table sets forth information about the revenue of our self-owned K-12 schools during the years ended 31 December 2018 and 2019.

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

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

The following table illustrates the information on average tuition fees and boarding fees per student by school programs during the years ended 31 December 2018 and 2019.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Average tuition and boarding fees per student of our self-owned K-12 school[1]		
High schools	**18.36**	16.03
Middle schools	**22.31**	21.67
Elementary schools	**22.15**	21.87
Kindergartens	**31.89**	31.85

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

Information about our tutorial centers and early childhood education centers

Our self-owned and entrusted tutorial centers offer tutoring services to K-12 students and franchised early childhood education centers offer tutoring services to pre-kindergarten children. The following table sets forth information about our tutorial centers and early childhood education centers in operation as at 31 December 2019:

Location	Tutorial Centers	Early Childhood Education Centers	Types of tutoring services offered	Commencement of operation/ (no. of centers)	Nature/ (no. of centers)
Chongqing	–	1	Pre-school tutoring services	2017 (1)	Franchised (1)
Guangyuan	1	–	After-school tutoring services; music, art and sports tutoring services	2017 (1)	Self-owned (1)
Luzhou	3	4	After-school tutoring services; music, art and sports tutoring services;Pre-school education; English tutoring services	2011 (1) 2013 (1) 2014 (1) 2017 (4)	Self-owned(5) Franchised (2)
Neijiang	2	–	After-school tutoring services; music, art and sports tutoring services	2017 (1) 2018 (1)	Self-owned (2)
Xichang	1	–	After-school tutoring services; music, art and sports tutoring services	2017 (1)	Self-owned (1)
Yibin	3	–	After-school tutoring services; music, art and sports tutoring services	2014(1) 2015(1) 2017(1)	Self-owned (3)

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

Self-owned tutorial centers and early childhood education center

During the Reporting Year, the Group recorded a revenue of RMB37.8 million (2018: RMB28.3 million) from our self-owned tutorial centers which represented 33.7% year-on-year increase is driven by increased enrollment and tuition fee.

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

Management and franchise fees received from entrusted and franchised schools

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

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

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

PROSPECTS

Outlook for Private Education in the PRC

Since the 1980s, the PRC government, both at the central and the local levels, has launched a series of policies to encourage the development of private education institutions as part of its strategies to bridge the shortage of private education. In some regions, local governments have implemented favorable policies, such as providing free land or financial support for campus building, to attract renowned private school operators. In the PRC, children's education has always been highly valued by parents. Private education markets which include fundamental education and tutoring have been taking off along the continuous growth of disposable income of urban households. As the One-Child Policy has been relaxed and the Two-Child Policy implemented, the birth rate increased from 2010 to 2016 and is expected to remain stable going forward. The higher birth rate will lead to a larger number of students when these newborns reach school age and a higher demand for education. These factors will likely drive the PRC'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, and has caused interruption in several aspects of our operation such as staff recruitment, school open days and new school construction.

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

School Network Development Plan

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

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

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

School Name	Location	Estimated maximum capacity (Student enrollment)	Nature of operation
Chengdu Pixian Tianli School (成都郫縣天立學校)	Chengdu, Sichuan Province	2,340	Self-owned
Dongying Tianli School (東營天立學校)	Dongying, Shandong Province	3,000	Self-owned
Rizhao Tianli School (日照天立學校)	Rizhao, Shandong Province	3,500	Self-owned
Luzhou Tianli Flagship School (瀘州天立旗艦學校)	Luzhou, Sichuan Province	5,000	Self-owned
Yichun Tianli School (宜春天立學校)	Yichuan, Jiangxi Province	4,000	Self-owned
Jiange Tianli School (劍閣天立學校)	Guangyuan, Sichuan Province	4,000	Self-owned
Luxian Tianli School (瀘縣天立小學)	Luzhou, Sichuan Province	1,845	Entrusted
Lanzhou Tianli School (蘭州天立學校)	Lanzhou, Gansu Province	5,000	Self-owned
Tongren Wanshan Tianli School (銅仁市萬山區天立學校)	Tongren, Guizhou Province	2,650	Self-owned
Chuzhou Lai'an Tianli School (滁州市來安縣天立學校)	Lai'an, Anhui Province	5,000	Self-owned

Regulatory Update

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

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

Save as the principal risks and uncertainties summarized in the section headed "Report of Directors" of this report, 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 report, 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 report, 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 report, the Company's operation remained unaffected by the Foreign Investment Law. The Company will closely monitor the development of the Foreign Investment Law and related legislations.

Financial Review

REVENUE

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

Our revenue increased by 43.2% from RMB640.5 million for the year ended 31 December 2018 to RMB917.4 million for the Reporting Year, primarily driven by an increase in student enrolment and an increase in tuition fee rates for some of our self-owned K-12 school.

Revenue from tuition fees increased by 44.1% from RMB456.2 million for the year ended 31 December 2018 to RMB657.5 million for the Reporting Year, primarily as a result of the increase of student enrollment. We opened two and seven K-12 schools in 2018 and 2019 respectively. Meanwhile, there was an increase in the number of students enrolled in our existing self-owned K-12 schools. The increase in revenue from tuition fees is also attributable to an increase in tuition fee rates for some of our self-owned K-12 schools. In the 2018/2019 school year, we raised the tuition fee rates for the Luzhou Longmatan Tianli Elementary School, the middle school of Yibin Tianli School and the high school of Guangyuan Tianli school.

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

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

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

Costs of Principal Activities

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

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

Labor costs increased by 39.9% from RMB208.6 million for the year ended 31 December 2018 to RMB291.8 million for the Reporting Year, primarily because we hired new teachers as a result of the increased student enrollment and the expansion of our school network while raising the salaries and wages of our teachers to attract and retain well-qualified teaching staff.

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

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

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

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

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

Gross Profit and Gross Profit Margin

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

Other Income and Gains

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

Administrative Expenses

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

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

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

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

Interest Expenses

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

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

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

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

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

BORROWINGS AND GEARING RATIO

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

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

CHARGE OVER ASSETS AND RIGHTS

Save as disclosed in note 26 under the section of "Notes to financial statements", the Group did not have additional assets or rights pledged as at 31 December 2019 and 31 December 2018.

FOREIGN CURRENCY RISK

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

TREASURY POLICIES

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

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

Save as disclosed in the financial information, there was no significant investment held, material acquisition and disposal of subsidiaries and associates by the Company during the Reporting Year. 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 Year, our capital expenditures were RMB1,507.4 million (2018: RMB784.0 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 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments contracted but not provided for property, plant and equipment amounting to RMB1,528.8 million (2018: RMB1,527.3 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.

		Net proceeds (HKD million)			
Items	**Percentage**	**Available**	**Utilized**	**Unutilized**	**Expected Time for the Use of Unutilized Proceeds** *(Note)*
Expansion of our school network	60%	887.18	598.25	288.93	On or before December 2020
Repayment of bank loans	30%	443.59	333.56	110.03	On or before June 2020
Working capital and general corporate purposes	10%	147.86	122.38	25.48	On or before December 2020

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

The following table illustrates the net proceeds utilized for expansion of our school network as at 31 December 2019:

	As at 31 December 2019 (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)	**94.80**
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)	**80.00**
Dongying Tianli School (東營天立學校)	**26.59**
Total	**598.25**

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 Hong Kong, 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 Hong Kong, United Kingdom, 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 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 report.

FINAL DIVIDEND

Subsequent to the end of the Reporting Period, a final dividend of HK4.10 cents (equivalent to RMB3.75 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People’s Bank of China on 20 March 2020, i.e. RMB0.9155 equivalent to HKD1.00) (2018: HK3.26 cents) per share of the Company out of the share premium account of the Company for the year ended 31 December 2019 representing a dividend payout of HKD85.0 million (equivalent to approximately RMB77.8 million) and dividend payout ratio of 28.9% for the year ended 31 December 2019 (2018: 29.0%), was proposed by the Directors and is subject to the shareholders’ approval at the forthcoming AGM of the Company.

Directors and Senior Management

THE BOARD OF DIRECTORS

The Board consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The functions and duties of the Board include convening Shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed in these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of share capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

Executive Directors

Mr. LUO Shi (羅實), aged 47, is the founder of the Group. He was appointed as a Director of the Company on 24 January 2017 and designated and appointed as the chairman of the Board and an executive Director of the Company on 31 January 2018. Mr. Luo is also a director of Tianli Education (HK) Limited, a subsidiary of the Company and a member of the Nomination Committee of the Company. Mr. Luo has been the chief executive officer and chairman of Shenzhou Tianli Education Investment Co., Ltd. (神州天立教育投資有限責任公司) since September 2013. Mr. Luo has over 17 years of experience in the education industry. He has been the chairman of the board and president of Shenzhou Tianli Holdings Group Limited (神州天立控股集團有限公司) since March 2004, responsible for strategic development, overall operational management and major decision making. Prior to that, he was the founder, chairman of the board and president of Sichuan Tianli Properties Development Co., Ltd. (四川天立房地產開發有限公司) from April 1994 and March 2004, responsible for strategic development, overall operational management and major decision making. Mr. Luo has been the vice-chairman of Chinese Young Entrepreneurs Association since November 2014 and was a representative of the twelfth People's Congress of Sichuan Province.

Mr. Luo obtained a master's degree in business administration from University of Electronic Science and Technology of China (電子科技大學) in June 2005. Mr. Luo completed the CEO Program of Cheung Kong Graduate School of Business in November 2015 and is a doctoral candidate of the doctoral program in management jointly offered by University of Electronic Science and Technology of China and ISCTE – University Institute of Lisbon. Mr. Luo has been a special research fellow of China Academy of Management Science (中國管理科學研究院) since March 2017. He also obtained a professional title of Economist granted by Luzhou Municipal Professional Titles Reform Leading Group (瀘州市職稱改革工作領導小組) in September 2000.

Ms. YANG Zhaotao (楊昭濤), aged 47, has been an executive Director since 31 January 2018, and deputy general principal of the Group and principal of Chengdu District since 1 January 2014. Prior to joining the Group, Ms. Yang was the general manager of Chengdu Golden Apple Education Investment Co., Ltd. (成都金蘋果教育投資有限責任公司) from September 2012 to December 2013, responsible for the overall management of internal and external affairs. Prior to that, she served as the principal and secretary of Party Committee of Chengdu Paotongshu Elementary School (成都市泡桐樹小學) from June 2002 to February 2011, in charge of the overall management of the school. From March 2009 to August 2012, Ms. Yang also served as a committee member and deputy director of Chengdu Qingyang Bureau of Education (青羊區教育局), responsible for the management of China Teaching Laboratory Zone Office and Education Culture Research and Pursuance Office and Education Supervision Office.

Ms. Yang obtained a bachelor's degree in education management from Sichuan College of Education (四川教育學院) in June 2001 and completed the professional postgraduate in curriculum and teaching at Sichuan Normal University (四川師範大學) in July 2003. In March 2008, Ms. Yang obtained the professional qualification of High/ Middle School Senior Teacher (中學高級教師職稱) from Chengdu Municipal Professional Titles Reform Committee (成都市職稱改革委員會). She was awarded the title of Exceptional Principal of Chengdu (成都市特級校長) by Chengdu Bureau of Education (成都市教育局) in September 2010, Special Expert with Outstanding Contribution of Chengdu (成都市有突出貢獻的優秀專家) by the People's Government of Chengdu in February 2009 and Top Ten Female Principal of Sichuan Province (四川省十佳女校長) by Sichuan Bureau of Education (四川省教育廳) in August 2006.

Mr. WANG Rui (王銳), aged 38, has been the chief financial officer of the Company since 1 March 2015 and an executive Director and a joint company secretary since 31 January 2018. Mr. Wang is also a member of the remuneration committee of the Company. Prior to joining our Group, Mr. Wang worked for Xi'an Titan Holdings Co., Ltd. (西安天朗控股有限公司) as the general manager of the finance department from June 2014 to February 2015 responsible for financial operation, and Longfor Properties Co., Ltd. (龍湖地產有限公司) as project financial manager of Chongqing branch company and Beijing branch company, risk and audit manager of the group and chief financial officer of Dalian branch company from June 2008 to April 2014, responsible for financial, risk control and audit work. From June 2007 to June 2008, he served as a senior financial manager of New Hope Properties Development Co., Ltd. (新希望房地產開發有限公司) to oversee matters relating to the financial accounting of the company. He acted as an accountant of China Vanke Co., Ltd. (萬科企業股份有限公司) from July 2004 to April 2007.

Mr. Wang obtained his bachelor's degree in accounting from Southwest University of Finance and Economics (西南財經大學) in July 2004.

Non-executive Director

Mr. TIAN Mu (田畝), aged 59, was appointed as a non-executive Director of the Company on 31 January 2018. Mr. Tian has more than 20 years of experience in the education industry. Mr. Tian was the chief principal of Tianli Education from September 2013 to December 2015, responsible for planning the establishment of new schools and school operations. Prior to that, Mr. Tian served as the principal of Luzhou Tianli School (瀘州天立學校), from March 2002 to December 2012. Prior to joining our Group, he served as the principal of LuXian No.2 High School (四川省瀘縣第二中學) from April 1998 to March 2002.

Mr. Tian obtained a bachelor's degree in chemistry from China West Normal University (西華師範大學) (previously known as Nanchong Normal Institute (南充師範學院)) in July 1983. Mr. Tian holds the professional qualification of senior teacher of high school from Luzhou Municipal Professional Titles Reform Group (瀘州市職改領導小組).

Independent non-executive Directors

Mr. LIU Kai Yu Kenneth (廖啟宇), aged 50, was appointed as an independent non-executive Director of the Company on 24 June 2018. Mr. Liu is also the chairman of the audit committee of the Company and a member of the nomination committee of the Company. Mr. Liu has been an independent non-executive director of Sisram Medical Ltd. (stock code: 1696.HK) since 30 August 2017. He worked at Hong Kong Exchanges and Clearing Limited (stock code: 388.HK) from June 2004 to October 2016, with his last position as assistant vice-president in IPO Transactions, Listing & Regulatory Affairs Division. Prior to that, he worked at VC CEF Capital Limited (now known as VC Capital Limited) from September 2000 to May 2003, with his last position as an assistant manager in the corporate finance department. He also worked as an audit officer in the internal audit department of Kowloon-Canton Railway Corporation from January 2000 to September 2000, an assistant manager of the audit and control division of the Hong Kong branch of Banque Nationale de Paris from August 1996 to September 1997, an accountant at Ernst & Young from August 1994 to May 1996, and a junior accountant in the audit department of Kwan Wong Tan & Fong (merged with Deloitte Touche Tohmatsu in 1997) from May 1994 to August 1994.

Mr. Liu obtained a bachelor's degree in mechanical engineering from the Imperial College of Science, Technology and Medicine of the University of London in August 1991 and a master of business administration degree in international banking and finance from the University of Birmingham in December 1998. Mr. Liu has been a member of the Hong Kong Institute of Certified Public Accountants since July 1999 and a fellow of the Association of Chartered Certified Accountants since April 2004.

Mr. YANG Dong (楊東), aged 57, was appointed as an independent non-executive Director of the Company on 24 June 2018. Mr. Yang is also a member of each of the audit committee and the remuneration committee of the Company. Mr. Yang has over 30 years' experience in the education industry in Sichuan. He has been a teacher in Chengdu Normal University since May 2012. Prior to that, he was a teacher at the Elementary Teachers Tutoring Center of Sichuan Province from June 1997 to May 2012, and a chief editor of a magazine for vocational school students from June 1994 to May 1996. He also worked with Educational Science and Research Institute of Leshan from January 1992 to May 1997 and with Education Committee of Dazhu Country, Dazhou of Sichuan Province from August 1984 to December 1991, and was a middle school teacher in Dazhu County, Dazhou of Sichuan Province from August 1983 to July 1984. Mr. Yang graduated from Normal Academy of Da County (達縣師範專科學校) (currently Sichuan University of Arts and Science (四川文理學院)) with an undergraduate degree majoring in Chinese language and literature in July 1983. He was qualified as a higher education teacher in June 2012.

Mr. CHENG Yiqun (程益群), aged 50, was appointed as an independent non-executive Director of the Company on 24 June 2018. Mr. Cheng is also a member of the audit committee and the chairman of each of the remuneration committee and nomination committee of the Company. Mr. Cheng has been an independent non-executive director of Golden Throat Holdings Group Co., Ltd. (stock code: 6896.HK) since February 10, 2015. Mr. Cheng has over 18 years' experience in providing legal services. He joined Commerce & Finance Law Offices in 2001 and has been a partner since 2009.

Mr. Cheng obtained a bachelor's degree in laws from Wuhan University in Wuhan, Hubei Province, the PRC in July 1997. Mr. Cheng is a PRC practicing lawyer recognized by the Ministry of Justice of the PRC in August 2009.

SENIOR MANAGEMENT

Mr. LUO Shi (羅實), aged 47, was appointed as a Director on 24 January 2017, and designated and appointed chairman of the Board, an executive Director and the chief executive officer of our Company on 31 January 2018. Please refer to "Directors and Senior Management – The Board of Directors" for details of his biography.

Ms. YANG Zhaotao (楊昭濤), aged 47, has been an executive Director since 31 January 2018, and deputy general principal of the Group and principal of Chengdu District since 1 January 2014. Please refer to "Directors and Senior Management – The Board of Directors" for details of her biography.

Mr. WANG Rui (王鋭), aged 38, has been the chief financial officer since 1 March 2015 and an executive Director and a joint company secretary since 31 January 2018. Please refer to "Directors and Senior Management – The Board of Directors" for details of his biography.

Mr. SU Yuandong (蘇遠東), aged 57, has been deputy general principal of the Group and the director of the teaching management centre since 1 July 2019. Mr. Su has over 37 years of experience in the education industry. He served as a vice-principal of the No. 1 Middle School affiliated to Central China Normal University from 2016 to June 2019 and principal of the No. 1 Middle School affiliated to Central China Normal University, Chaoyang School (campus school of Chaoyang District, Beijing) from 2011 to 2016, and acted successively as head coach of the Olympic Mathematics Competition, grade dean, branch secretary and vice-principal in the No. 1 Middle School affiliated to Central China Normal University from 1996 to 2011. Prior to that, he served as principal of the No. 1 Middle School in Wufeng Tujia Autonomous County from 1986 to 1996.

Mr. Su completed his undergraduate courses in mathematics in Hubei College of Education in July 1998 and postgraduate courses in educational principles in East China Normal University in December 1998. He held professional qualifications for high school teachers recognized by the review committee on secondary school teacher job of Central China Normal University and was rated as a special grade teacher (senior high school) by Hubei Provincial Peoples Government in September 2010. He was awarded the title of academic leader by Wuhan Education Bureau in 2010 and won the "Labor Day Medal" in Chaoyang District, Beijing in 2016.

Report of Directors

The Board of Directors of Tianli Education International Holdings Limited present their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2019.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 24 January 2017. The principal place of business of the Company in Hong Kong is located at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.

The Company's Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 July 2018.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is a leading private education service provider in Western region of the PRC. We primarily offer K-12 educational services, supplemented by tutoring services for K-12 students and pre-kindergarten children.

BUSINESS REVIEW

Under the section "Management Discussion and Analysis", we conduct a review on the business of the Group, analysis of the Group's financial performance, future development of our business and events affecting the Company that have occurred since the end of the financial year.

PRINCIPAL RISKS AND UNCERTAINTIES

In our business, we are subject to the following principal risks and uncertainties:

1. Our business and results of operations mainly depend on the level of tuition fees we are able to charge and our ability to maintain and raise tuition fees.

2. We face intense competition in the PRC education sector, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departure of qualified teachers and increasing capital expenditure.

3. Our business is heavily dependent on the market recognition of our "Tianli" brand and the reputation of our school network.

4. Our business relies on our ability to attract and retain our senior management, dedicated and qualified teachers and other personnel.

5. We may not be able to successfully execute our growth strategies or effectively manage our growth, which may hinder our ability to capitalize on new business opportunities.

6. Depreciation charge and interest expense incurred over the construction period of new self-owned K-12 schools and the expansion of our existing K-12 schools may result in a decrease in our net profit margin.

7. Our K-12 education business depends on our ability to promptly and adequately respond to changes in admission requirements for higher-level education and testing materials.

8. Our K-12 school students' academic performance may fall and satisfaction with our K-12 educational services may decline.

9. We are subject to various approvals, licenses, permits, registrations and filings for our education and other services in the PRC.

10. We are subject to extensive governmental approvals and compliance requirements for establishing our campuses and school premises.

11. Capacity constraints of our school facilities could limit our ability to grow and we are subject to regulatory guidance relating to the ratios between school site area/building area and the number of enrolled students.

12. New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects.

13. We are exposed to geographic concentration risks as most of the self-owned and entrusted schools we currently operate are located in Sichuan Province.

14. Our business may be subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to improving environmental sustainability and will closely monitor the performance. In accordance with Rule 13.91 of and Appendix 27 to the Listing Rules, details of environmental policies and performance of the Company are set out in the section headed "Environment, Social and Governance Report" on pages 70 to 97 of this report. We have complied with the "comply or explain" provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2019, the Group was not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Company.

In relation to non-compliance of all the relevant requirements with the contributions to the social insurance plans and the housing provident fund for the employees of the Company as disclosed in the Prospectus, we have committed to taking correction measures. As at 31 December 2019, our Company has established sufficient provision on contributions to the social insurance plans and the housing provident fund.

In relation to the compliance 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 requirement. For details, please refer to the section headed "Financial Review" on pages 17 to 22 of this report.

RELATIONS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company maintains a good relationship with its employees, customers and suppliers in order to ensure smooth business operation.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 103 of this report.

DIVIDENDS

The Board may recommend the payments of dividend on a per Share basis in respect of the Shares of the Company. Any dividend for a financial year shall be subject to Shareholders' approval. Details of the dividend in respect of the year ended 31 December 2019 are set out in "Final Dividend" on page 22 of this report.

DIVIDEND POLICY

In considering the payment of dividends, the Company takes various factors into account, including but not limited to the Company's financial performance, the business conditions and strategies, the capital requirements, statutory and regulatory restrictions and any other factors which the Company may deem relevant.

The declaration and payment of future dividends will depend upon, among other things, financial condition, future earnings, cash flow, liquidity level, business prospects and other relevant factors. Our Company endevours to enhance shareholders return by way of dividend distribution. However, any dividend payment to shareholders is not guaranteed.

CLOSURE OF REGISTER OF MEMBERS

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

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

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Company for the most recent five financial years is set out in the section headed "Financial Summary" on page 7 to 8 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 13 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2019 are set out in note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 27 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2019 are set out in the section headed "Consolidated Statement of Changes in Equity" on pages 106 to 107 of this report. The distributable reserves of the Company as at 31 December 2019 were RMB1,016 million.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers in aggregate accounted for less than 10% of the total sales for the year ended 31 December 2019.

Purchases from the Group's five largest suppliers in aggregate accounted for less than 10% of the total purchases for the year ended 31 December 2019.

PERMITTED INDEMNITY

In accordance with article 33.1 of the Company's Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Except for the foregoing, the Company has no valid permitted indemnity provisions (as defined in Companies (Directors' Report) Regulation of the Chapter 622D of Hong Kong Laws) during the year ended 31 December 2019 and up to the date of this report.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this report were as follows:

Executive Directors:

Mr. Luo Shi
Ms. Yang Zhaotao
Mr. Wang Rui

Non-executive Directors:

Mr. Tian Mu
Mr. Shen Jinzhou *(resigned on 23 December 2019)*

Independent Non-executive Directors:

Mr. Liu Kai Yu Kenneth
Mr. Yang Dong
Mr. Cheng Yiqun

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers that all independent non-executive Directors are independent.

DIRECTORS’ SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company for a term of three years commencing from the listing date, which may be terminated by not less than three months’ notice in writing served by either the executive Director or the Company.

Each of the non-executive Director and the independent non-executive Directors has signed a service contract with us for a term of three years, with effect from the listing date.

Under their respective service contracts, each of the Directors is entitled to a fixed fee. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles and the applicable Listing Rules.

None of our Directors has or is proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation.

DIRECTORS’ AND SENIOR EXECUTIVES’ EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 December 2019 are set out in note 8 and note 9 to the consolidated financial statements. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

The remuneration of Directors is determined by taking into account of the relevant Director’s experience, responsibilities and time commitment to the Company, and the operating results of the Company. The remuneration of the Directors is subject to review of the Remuneration Committee and approval by the Board.

During the year ended 31 December 2019, no Director or any of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

The Group did not pay consideration to any third parties for making available directors’ services during the year ended 31 December 2019.

Save as disclosed in this report, no loans, quasi-loans and other dealings were made available in favour of Directors, bodies corporate controlled by and entities connected with Directors subsisted at the end of the year or at any time during the year ended 31 December 2019.

DIRECTORS’ INTERESTS IN CONTRACTS AND COMPETING BUSINESSES

Save as disclosed in note 32 to the consolidated financial statements headed “Related Party Transactions and Balances” and the section headed “Continuing Connected Transactions” of this report below, no Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party as at 31 December 2019 or at any time during the year ended 31 December 2019.

During the year ended 31 December 2019, neither our controlling shareholders (as defined in the Listing Rules) nor any of our Directors were interested in the business of operating private education for primary, middle and high schools, other than our Group, which competes or is likely to compete, either directly or indirectly, with our Group’s business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

Our controlling shareholders (collectively, the “Controlling Shareholders”) executed the deed of non-competition (the “Deed of Non-Competition”) in favour of the Company to the effect that each of them will not, and will procure each of their respective close associates (other than members of our Group) to not directly or indirectly, carry on, engage, invest, participate, or otherwise be interested in any business which competes or is likely to compete with any of the existing and/or future businesses carried on by any member of our Group in relation to the provision of private education services including K-12 education services and tutoring services (the “Restricted Business”).

Each of the Controlling Shareholders has made a declaration (the “Declaration”) as to the compliance with the terms of the Deed of Non-Competition for the year ended 31 December 2019 (the “Relevant Period”). In determining whether the Controlling Shareholders had fully complied with the Deed of Non-Competition during the Relevant Period, the independent non-executive Directors of the Company (the “INEDs”) noted that: (i) each of the Controlling Shareholders has made the Declaration; (ii) no Restricted Business was reported to be undertaken by the Controlling Shareholders (other than, for the avoidance of doubt, through the Group) during the Relevant Period; and (iii) there was no particular situation rendering the compliance with, and enforcement of, the Deed of Non-Competition being questionable. The INEDs were satisfied with the Controlling Shareholders’ compliance with the Deed of Non-Competition during the Relevant Period.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this report, no contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of their associates during the year ended 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group constituted non-exempt continuing connected transactions for the Group for the year ended 31 December 2019.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below is a summary of non-exempt continuing connected transactions for the Group, which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. All capitalized terms used in this section shall have the same meaning defined in the Prospectus, unless otherwise specified.

(1) New School Construction Framework Agreement

On 19 June 2018, Tianli Education entered into a school construction cooperation framework agreement with Nanyuan Construction (the "School Construction Framework Agreement"), pursuant to which Nanyuan Construction will, if engaged by our PRC Operating Entities, provide construction services, including construction, rectification and maintenance, for schools sponsored/owned by our PRC Operating Entities. The term of the School Construction Framework Agreement is three years commencing on 1 January 2018. In light of the business needs of the Company and the benefits of continuing the existing transactions with Nanyuan Construction, the Company proposed to increase the annual caps for the procurement of construction services by setting new annual caps for the three years ended 31 December 2021 under a new framework agreement dated 16 April 2019 (the "New School Construction Framework Agreement"). The New School Construction Framework Agreement and the proposed annual caps for New School Construction Framework Agreement were approved at the extraordinary general meeting on 10 July 2019. The annual caps under the New School Construction Framework Agreement for the three years ended 31 December 2021 are as follows:

	For the year ended 31 December 2019 (RMB'000)	For the year ended 31 December 2020 (RMB'000)	For the year ended 31 December 2021 (RMB'000)
Annual Caps	1,700,000	2,000,000	2,400,000

Pursuant to the New School Construction Framework Agreement, if our PRC Operating Entities and schools sponsored by us, at their option, select and engage Nanyuan Construction to provide school construction services, a separate agreement will be entered into in respect of each school construction project between the relevant entities of both parties which will set out the scope of services for such project and the specific terms and conditions pursuant to the principles stipulated in the New School Construction Framework Agreement.

During the year ended 31 December 2019, the transaction amounts between the Company and Nanyuan Construction under the School Construction Framework Agreement and the New School Construction Framework Agreement paid/payable by the Company was RMB965.4 million.

Nanyuan Construction is wholly-owned by Tianli Holding, and Mr. Luo, a Controlling Shareholder, controls an aggregate 72.84% of Tianli Holding's voting rights. Pursuant to Rule 14A.07(1), as Mr. Luo, a Controlling Shareholder, is a connected person of our Company, Nanyuan Construction is therefore a 30%-controlled company (as defined in Rule 14A.13(3)) indirectly held by a connected person as described in Rule 14A.07(1), and hence an associate of Mr. Luo and a connected person of our Company.

(2) Structured Contracts

As disclosed in the section headed "Structured Contracts – Operation of the Structured Contracts – Background of the Structured Contracts" in the Prospectus, PRC laws and regulations currently prohibit foreign ownership of primary and middle school in the PRC and restrict the operation of preschools, high schools and tutorial centers to Sino-foreign ownership, in addition to imposing a qualification requirement on foreign owners. Further, government approval in respect of Sino-foreign ownership has been withheld. As a result, our Group, through the wholly-owned subsidiary of our Company, Tibet Yongsi, has entered into the Structured Contracts so that we can conduct our business operations indirectly in the PRC through our PRC Operating Entities while complying with applicable PRC laws and regulations. The Structured Contracts are designed to provide our Group with effective control over the financial and operational policies of our PRC Operating Entities and, to the extent permitted by PRC law and regulations, the right to acquire the equity interest in and/or the assets of our PRC Operating Entities after the Listing through Tibet Yongsi. As we operate our K-12 and tutorial center education business through our PRC Operating Entities, which are controlled by Tianli Education, and we do not hold any direct equity interest in our PRC Operating Entities, the Structured Contracts were entered into pursuant to which all material business activities of our PRC Operating Entities are instructed and supervised by our Group, through Tibet Yongsi, and economic benefits arising from such business activities of our PRC Operating Entities are transferred to our Group.

Risks relating to our structured contracts

The Company believes the following risks are associated with the Structured Contacts. Further details are set out in on pages 49 to 57 of the Prospectus.

- The PRC government may determine that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject to severe penalties, and our business may be materially and adversely affected.

- Structured Contracts may not be as effective in providing control over schools which may be acquired by the Company in the future through direct ownership.

- The owners of the PRC Operating Entities may have conflicts of interest with the Company, which may materially and adversely affect the business and financial condition of our Company.

- The school sponsor interests in the PRC Operating Schools held by the registered shareholders are not capable of being pledged in favor of our wholly foreign-owned enterprise, Tibet Yongsi, under PRC laws. The Structured Contracts with respect to the PRC Operating Schools contain alternative arrangements that may not achieve the level of protection equivalent to typical contractual arrangements with equity pledge arrangements.

- The exercise of the option by the Company to acquire the sponsor interests or equity interests of the PRC Operating Entities may be subject to certain limitations and may incur substantial costs.

- Structured Contracts may be subject to scrutiny by PRC tax authorities and additional tax may be imposed, which may materially and adversely affect the results of operation and the value of the investment of our investors.

- Certain terms of the Structured Contracts may not be enforceable under PRC laws.

- The Company relies on dividend and other payments from Tibet Yongsi to pay dividends and other cash distributions to our shareholders and any limitation on the ability of Tibet Yongsi to pay dividends to the Company would materially and adversely limit our ability to pay dividends to our shareholders.

- The PRC Operating Entities may be subject to limitations on their ability to operate private education business or make payments to related parties.

- If any of the PRC Operating Entities becomes subject to winding up or liquidation proceedings, the Company may lose the ability to use certain important assets, which could negatively impact the business and materially and adversely affect the ability to generate revenue.

- If the Company is not able to execute or manage its overseas expansion strategies effectively, the ability to capitalize on new business opportunities would be hindered.

Below is a summary of the Structured Contracts. For details, please refer to the section headed "Structured Contracts" of the Prospectus.

(1) Exclusive Business Cooperation Agreement

Pursuant to the Exclusive Business Cooperation Agreement, Tibet Yongsi shall provide technical services, management support and consulting services necessary for the private education business, and in return, our PRC Operating Entities shall make payments accordingly.

(2) Exclusive Call Option Agreement

Under the Exclusive Call Option Agreement, the Registered Shareholders and Tianli Education have irrevocably granted Tibet Yongsi or its designated purchaser the right to purchase all or part of the school sponsor interests or equity interests in the PRC Operating Entities owned by the Registered Shareholders and the relevant PRC Operating Entities ("Call Option"). The purchase price payable by Tibet Yongsi in respect of the transfer of such school sponsor interests or equity interests upon exercise of the Call Option shall be the lowest price permitted under the PRC laws and regulations. Tibet Yongsi or its designated purchaser shall have the right to purchase such proportion of the school sponsor interests or equity interests of related PRC Operating Entities as it decides at any time.

(3) School Sponsor's and Directors' Rights Entrustment Agreement

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, our PRC Operating Entities have irrevocably authorized and entrusted Tibet Yongsi to exercise all their rights as school sponsor to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors of the schools; (b) the right to appoint and/or elect supervisors of the schools; (c) the right to understand the operation and financial situation of the schools; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the schools; (e) the right to obtain reasonable returns as school sponsor of the schools in accordance with the laws and the articles of association of each school; (f) the right to acquire residue assets upon liquidation of the schools in accordance with the laws and the articles of association of each school; (g) the right to transfer school sponsor interest in accordance with the laws; (h) the right to choose for the school to be a for-profit school or not-for-profit school pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time; and (i) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time.

(4) School Sponsor's Powers of Attorney

Pursuant to the School Sponsor's Powers of Attorney executed by the relevant PRC Operating Entities who are school sponsors for our PRC Operating Schools in favor of Tibet Yongsi, each of the relevant PRC Operating Entities authorized and appointed Tibet Yongsi, the director of which is Jiang Xiaomin (who is not a director of any of our PRC Operating Entities and therefore does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of our PRC Operating Schools. For details of the rights granted, see the paragraph headed "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (3) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

(5) Directors' Powers of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Tibet Yongsi, each of the Appointees authorized and appointed Tibet Yongsi, the director of which is Jiang Xiaomin (who is not a director of any of our PRC Operating Entities and therefore does not give rise to any conflicts of interest), as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors of our PRC Operating Schools. For details of the rights granted, see the paragraph headed "Structured Contract – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (3) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

(6) Shareholders' Rights Entrustment Agreement

Pursuant to the Shareholders' Rights Entrustment Agreement, the Registered Shareholders and our PRC Operating Entities has irrevocably authorized and entrusted Tibet Yongsi to exercise all of his/its respective rights as shareholders of the relevant PRC Operating Entities to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to attend shareholders' meetings; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting; (c) the right to appoint directors or legal representative; (d) the right to propose to convene interim shareholders' meetings; (e) the right to sign all shareholders' resolutions and other legal documents; (f) the right to instruct the directors and legal representative to act in accordance with the instruction of Tibet Yongsi; (g) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of the relevant PRC Operating Entities as amended from time to time, including the right to declare any dividends, or sell, transfer, pledge or dispose of all or part of the equity interests of the relevant PRC Operating Entities; (h) the right to handle the legal procedures of registration, approval and licensing at the education department, the department of civil affairs or other government regulatory departments; (i) the right to exercise the voting rights in cases of bankruptcy, liquidation or termination of the relevant PRC Operating Entities, and to acquire the residual assets in any of such event; and (j) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of the relevant PRC Operating Entities as amended from time to time.

In addition, the Registered Shareholders and our PRC Operating Entities have irrevocably agreed that (i) Tibet Yongsi may delegate its rights under the Shareholders' Rights Entrustment Agreement to its designated person, without prior notice to or approval by the Registered Shareholders; and (ii) any person as successor of civil rights of Tibet Yongsi or liquidator by reason of subdivision, merger, liquidation of Tibet Yongsi or other circumstances shall have authority to replace Tibet Yongsi to exercise all rights under the Shareholders' Rights Entrustment Agreement.

(7) Shareholders' Powers of Attorney

Pursuant to the Shareholders' Powers of Attorney executed by the Registered Shareholders and our PRC Operating Entities who are shareholders of our PRC Operating Companies in favor of Tibet Yongsi, each of the Registered Shareholders and the relevant PRC Operating Entities authorized and appointed Tibet Yongsi, as his or its agent to act on his or its behalf to exercise or delegate the exercise of all his or its rights as shareholders of the relevant PRC Operating Companies. For details of the rights granted, see the paragraph headed "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (6) Shareholders' Rights Entrustment Agreement" of the Prospectus.

(8) ***Spouse Undertakings***

Pursuant to the Spouse Undertakings, the respective spouse of the Registered Shareholders has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by the respective Registered Shareholders, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest in Tianli Education, pledge or transfer the direct or indirect equity interest in Tianli Education, or the disposal of the direct or indirect equity interest in Tianli Education in any other forms;

(b) the spouse authorizes the respective Registered Shareholders or his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's equity interest in Tianli Education (direct or indirect) in order to safeguard the interest of Tibet Yongsi under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(c) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect equity interest in Tianli Education;

(d) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events; and

(e) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tibet Yongsi and the spouses of the respective Registered Shareholders in writing.

The Spouse Undertakings shall have the same term as and incorporate the terms of the Exclusive Business Cooperation Agreement.

(9) ***Equity Pledge Agreement***

Pursuant to the Equity Pledge Agreement, each of the Registered Shareholders unconditionally and irrevocably pledged and granted first priority security interests over all of his equity interest in Tianli Education together with all related rights thereto to Tibet Yongsi as security for performance of the Structured Contracts and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Tibet Yongsi as a result of any event of default on the part of the Registered Shareholders or our PRC Operating Entities and all expenses incurred by Tibet Yongsi as a result of enforcement of the obligations of the Registered Shareholders or our PRC Operating Entities under the Structured Contracts (the "Secured Indebtedness").

(10) ***Loan Agreement***

Pursuant to the Loan Agreement, Tibet Yongsi agreed to provide interest-free loans to Tianli Education in accordance with the PRC laws and regulations and Tianli Education agreed to utilize the proceeds of such loans to contribute as capital to our PRC Operating Schools directly or through the relevant PRC Operating Entity in its capacity as school sponsor of our PRC Operating Schools in accordance with our instructions. Both parties agree that all such capital contribution will be directly settled by Tibet Yongsi on behalf of Tianli Education.

Listing Rules Implication

Mr. Luo is and will continue to be a Director and a Controlling Shareholder of our Company, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.

Tianli Education is owned as to 99% by Mr. Luo, and hence an associate of Mr. Luo. Considering the above, Tianli Education is therefore a connected person of our Company under Rule 14A.12(1)(c) of the Listing Rules. Accordingly, the transactions contemplated under the Structured Contracts constitute continuing connected transactions of our Company under the Listing Rules.

Our Directors (including the independent non-executive Directors) are of the view that the Structured Contracts and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations, and that such transactions have been and shall be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms, are fair and reasonable and are in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Structured Contracts and any new transactions, contracts and agreements or renewals of existing agreements to be entered into between any of our PRC Operating Entities and any member of our Group technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Structured Contracts, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent Shareholders' approval requirements.

Application for Waiver

In view of the Structured Contracts, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Structured Contracts pursuant to Rule 14A.105 of the Listing Rules, and (ii) the requirement of setting an annual cap for the transactions under the Structured Contracts under Rule 14A.53 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange, subject however to the following conditions:

(a) *No change without independent non-executive Directors' approval*

No change to the Structured Contracts will be made without the approval of the independent non-executive Directors.

(b) *No change without independent Shareholders' approval*

Save as described in paragraph (d) below, no change to the agreements governing the Structured Contracts will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Structured Contracts in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) *Economic benefits flexibility*

The Structured Contracts shall continue to enable our Group to receive the economic benefits derived by our PRC Operating Entities through (i) our Group's option, to the extent permitted under PRC laws and regulations, to acquire, all or part of the school sponsors' interests/equity interests in our PRC Operating Entities at the lowest possible amount permissible under the applicable PRC laws and regulations, (ii) the business structure under which the net profit generated by our PRC Operating Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Tibet Yongsi by our PRC Operating Entities under the Exclusive Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights in our PRC Operating Entities.

(d) *Renewal and reproduction*

On the basis that the Structured Contracts provide an acceptable framework for the relationship between our Company and its subsidiaries, on one hand, and our PRC Operating Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including any branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Structured Contracts. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including any branch company), and engaging in the same business as that of our Group (which our Group may establish) will, upon renewal and, or reproduction of the Structured Contracts, however be treated as connected persons of our Company, and transactions between these connected persons and our Company other than those under similar Structured Contracts shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.

(e) *Ongoing reporting and approvals*

Our Group will disclose details relating to the Structured Contracts on an ongoing basis as follows:

- The Structured Contracts in place during each financial period will be disclosed in our Company's annual report in accordance with relevant provisions of the Listing Rules.

- Our independent non-executive Directors will review the Structured Contracts annually and confirm in our Company's annual report as per the section headed "Connected Transactions – Non-exempt Continuing Connected Transaction – Structured Contracts – Application for Waiver" of the Prospectus.

- Our Company's auditors will carry out procedures annually on the transactions carried out pursuant to the Structured Contracts as per the section headed "Connected Transactions – Non-exempt Continuing Connected Transaction – Structured Contracts – Application for Waiver" of the Prospectus.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of our PRC Operating Entities will be treated as our Company's wholly-owned subsidiary, and at the same time, the directors, chief executives or substantial shareholders of each of our PRC Operating Entities and their respective associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Structured Contracts, will be subject to the requirements under Chapter 14A of the Listing Rules.

- Each of our PRC Operating Entities will undertake that, for so long as our Shares are listed on the Stock Exchange, each of our PRC Operating Entities will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the continuing connected transactions.

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

Our independent non-executive Directors have reviewed the School Construction Framework Agreement, the New School Construction Framework Agreement and the Structured Contracts, and confirmed that:

1. the transactions carried out under the New School Construction Framework Agreement and the Structured Contracts during the year ended 31 December 2019 have been entered in the ordinary course of business of the Company and its subsidiaries;

2. the transactions carried out under the New School Construction Framework Agreement and the Structured Contracts during the year ended 31 December 2019 have been carried out under normal commercial terms or better;

3. the transactions carried out under the New School Construction Framework Agreement and Structured Contracts during the year ended 31 December 2019 have been entered into in accordance with the terms of the agreements which are fair and reasonable and in the interests of our Shareholders as a whole;

4. the transactions carried out under the Structured Contracts during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Structured Contracts, and have been conducted so that the profit generated by our PRC Operating Entities has been substantially retained by our Group;

5. no dividends or other distributions have been made by our PRC Operating Entities to the holders of the school sponsor's interest/equity interest which are not otherwise subsequently assigned or transferred to our Group; and

6. the Structured Contracts and, any new contracts entered into, renewed or reproduced between our Group and our PRC Operating Entities during the year ended 31 December 2019 are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.

CONFIRMATIONS FROM THE COMPANY'S INDEPENDENT AUDITORS

The auditors of the Company has confirmed in a letter to the Board that, with respect to the transactions entered into under the New School Construction Framework Agreement and the Structured Contracts in the year ended 31 December 2019:

1. nothing has come to their attention that causes the auditors to believe that the transactions under the New School Construction Framework Agreement and the Structured Contracts have not been approved by the Board;

2. nothing has come to their attention that causes the auditors to believe that the transactions under the New School Construction Framework Agreement and the Structured Contracts were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

3. nothing has come to their attention that causes the auditors to believe that the transactions under the New School Construction Framework Agreement have exceeded the annual caps as set by the Company; and

4. nothing has come to their attention that causes the auditors to believe that dividends or other distributions have been made by the PRC Operating Entities (as defined in the Prospectus) and newly established schools subsequently, to the holders of the school sponsor's interest/equity interest which are not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

The related party transactions undertaken during the year ended 31 December 2019 are set out in note 32 to the consolidated financial statements, among which, item (c) (1) also constituted continuing connected transaction as defined in Chapter 14A of the Listing Rules. The Company has complied with all disclosure requirements as set out in Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2019.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interest and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required pursuant to the Model Code to be notified to the Company and the Stock Exchange are set out as follows:

Long position in shares of the Company

Name	Capacity/Nature of interest	Number of shares held/ interested	Approximate percentage of interest
Mr. Luo Shi *(Note 1)*	Interest of a controlled corporation	862,641,316	
	Interest of spouse	1,956,520	
	Beneficiary of a trust	6,521,733	
		871,119,569	41.98%
Ms. Yang Zhaotao *(Note 2)*	Beneficiary of a trust	1,956,520	0.09%
Mr. Wang Rui *(Note 3)*	Beneficiary of a trust	1,956,520	0.09%
Mr. Tian Mu *(Note 4)*	Interest of a controlled corporation	5,744,737	0.28%

Notes:

(1) Mr. Luo Shi is an executive Director, the chairman and the chief executive officer of the Company and holds 100% of the issued share capital of Sky Elite Limited, which in turn holds 862,641,316 shares of the Company. In addition, Ms. Tu Mengxuan has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 391,304 shares of which have been vested as at 31 December 2019. Ms. Tu Mengxuan is the spouse of Mr. Luo Shi. By virtue of the SFO, Mr. Luo is deemed or taken to be interested in the shares in which Sky Elite Limited and Ms. Tu Mengxuan are interested. Furthermore, Mr. Luo has been granted 6,521,733 shares under the Pre-IPO Restricted Share Award Scheme, 2,608,692 shares of which have been vested as at 31 December 2019.

(2) Ms. Yang Zhaotao is an executive Director and has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 782,608 shares of which have been vested as at 31 December 2019.

(3) Mr. Wang Rui is an executive Director and has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 782,608 shares of which have been vested as at 31 December 2019.

(4) Mr. Tian Mu is a non-executive Director who wholly-owns 100% of the issued share capital of Healthy and Peaceful Limited, which in turn holds 5,744,737 shares of the Company, and therefore he is deemed or taken to be interested in the issued share capital of the Company in which Healthy and Peaceful Limited has shareholding interests.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the shares

Name	**Capacity/Nature of interest**	**Number of shares held/ interested**	**Approximate percentage of interest**
Sky Elite Limited *(Note 1)*	Beneficial interest	862,641,316	41.57%
Ms. Tu Mengxuan *(Note 2)*	Beneficiary of a trust	1,956,520	
	Interest of spouse	869,163,049	
		871,119,569	41.98%
THE CORE TRUST COMPANY LIMITED *(Note 3)*	Trustee	126,008,158	6.07%
TCT (BVI) Limited *(Note 3)*	Other	126,008,158	6.07%

Notes:

(1) Mr. Luo holds 100% of the issued share capital of Sky Elite Limited and therefore Mr. Luo is deemed or taken to be interested in the Shares held by Sky Elite Limited under Part XV of the SFO.

(2) Ms. Tu Mengxuan has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 391,304 shares of which have been vested as at 31 December 2019. Ms. Tu Mengxuan is the spouse of Mr. Luo. Under the SFO, Ms. Tu Mengxuan is deemed to be interested in the same number of shares in which Mr. Luo is interested.

(3) THE CORE TRUST COMPANY LIMITED controlled TCT (BVI) Limited as to 100% and hence was deemed to be interested in the shares or interests held by TCT (BVI) Limited in the Company. TCT (BVI) Limited controlled Sky Vista Limited and Sky Vista 2nd Limited as to 100% respectively, and hence was deemed to be interested in the shares or interests held by Sky Vista Limited and Sky Vista 2nd Limited in the Company. Sky Vista Limited and Sky Vista 2nd Limited were established by THE CORE TRUST COMPANY LIMITED as special purpose vehicles for holding shares of the Company granted under the Pre-IPO Restricted Share Award Scheme (see section named "Pre-IPO Restricted Share Award Scheme" below) and Restricted Share Award Scheme (see section named "Restricted Share Award Scheme" below) respectively on behalf of the eligible persons.

Save as disclosed above, as at 31 December 2019, none of the substantial or significant shareholders or other persons, other than the Directors and chief executives of the Company whose interest are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company" above, had any interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

EMPLOYEES AND REMUNERATION POLICIES

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

The staff costs, including Directors' emoluments, net of government grant released and subsidies received, of the Group were approximately RMB518.3 million for the Reporting Year (2018: approximately RMB337.4 million).

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

The Company has also adopted a Pre-IPO Restricted Share Award Scheme, Share Option Scheme and Restricted Share Award Scheme for its employees and other eligible persons.

SHARE INCENTIVE SCHEMES

PRE-IPO RESTRICTED SHARE AWARD SCHEME

Summary of the Pre-IPO Restricted Share Award Scheme

The following is a summary of the rules of the Pre-IPO Restricted Share Award Scheme adopted by the Company on 26 January 2018. The Pre-IPO Restricted Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules.

(a) Purpose

The Company has adopted the Pre-IPO Restricted Share Award Scheme to align the interests of eligible persons with those of the Group through ownership of Shares, to support value creation oriented performance culture and, in part, to replace those certain interests of certain eligible persons in Tianli Education transferred in connection with the reorganization transaction.

(b) Term of the Pre-IPO Restricted Share Award Scheme

The Pre-IPO Restricted Share Award Scheme shall be valid and effective for a period of 10 years, commencing on 26 January 2018, or until the Pre-IPO Restricted Share Award Scheme is terminated by the Board, whichever is earlier, after which period no further share awards shall be granted or accepted, but the provisions of the Pre-IPO Restricted Share Award Scheme shall remain in full force and effect in order to give effect to the vesting of share awards granted and accepted prior to the expiration or termination of the Pre-IPO Restricted Share Award Scheme.

(c) Maximum number of share awards

The maximum number of share awards that may be granted under the Pre-IPO Restricted Share Award Scheme in aggregate (excluding share awards that have lapsed or been cancelled in accordance with the rules of the Pre-IPO Restricted Share Award Scheme) shall be such number of shares held or to be held by the Trustee for the purpose of the Pre-IPO Restricted Share Award Scheme from time to time, and which shall in any event, be no more than 107,178,158 Shares (the number of Shares is based on the completion of the capitalization issue and the global offering). Our Company will not further grant share awards under the Pre-IPO Restricted Share Award Scheme.

(d) Administration of the Pre-IPO Restricted Share Award Scheme

The Pre-IPO Restricted Share Award Scheme shall be subject to the administration of the Board, and the decision of the Board shall be final and binding on all parties. The Board may delegate the authority to administer the Pre-IPO Restricted Share Award Scheme to any committee thereof or any third party duly appointed thereby, including without limitation third-party service providers and professional trustees (collectively, the "Authorized Administrators"). The powers of the Board include and are not limited to:

(i) construe and interpret the Pre-IPO Restricted Share Award Scheme, make factual determinations with respect to the administration of the Pre-IPO Restricted Share Award Scheme, further define the terms used in the Pre-IPO Restricted Share Award Scheme; and prescribe, amend and rescind rules and regulations relating to the administration of the Pre-IPO Restricted Share Award Scheme or the share awards;

(ii) determine the persons who will be awarded share awards, eligibility requirements, the number and price of share awards, and restrictions applicable to such share awards;

(iii) make such appropriate and equitable adjustments to the terms of share awards as it deems necessary; and

(iv) amend, add to and/or delete any of the provisions of the Pre-IPO Restricted Share Award Scheme.

(e) Grant of share awards

All the 107,178,158 Shares under the Pre-IPO Restricted Share Award Scheme have been granted before the listing of the Company in July 2018. The Board or Authorized Administrators also imposed certain the time-based or other restrictions and/or other criteria and conditions (collectively, the "Restrictions") and the time period and schedule (the "Restricted Period") when the share awards will vest, and the Restrictions and the Restricted Period were stated in the grant letter.

In the grant letters issued to all selected persons, the Board has imposed a Restricted Period under which share awards shall vest in six years from 26 June 2016 in accordance with the following schedule:

(i) 10% of a participant's applicable share awards shall become unlocked upon each of the first anniversary and the second anniversary; and

(ii) 20% of a participant's applicable share awards shall become unlocked upon each of the third anniversary, the fourth anniversary, the fifth anniversary and the sixth anniversary.

(f) ***Restrictions on share awards***

Each share award shall be subject to a restricted period starting from the date of grant of each such share award and ending upon the date when the Shares become listed on the Stock Exchange and the date upon which the relevant participant completes the relevant approval and filing procedures in respect of his/her share awards/shares in accordance with the Huifa [2012] No. 7 Circular of the State Administration of Foreign Exchange on Relevant Issues Concerning the Domestic Individuals' Participation in the Exchange Administration of Equity Incentive Plans of Overseas Listed Companies (if applicable) and other applicable laws and regulations (whichever is later) (the "Lockup Restricted Period").

The share awards and any interest therein may not be enjoyed, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by the participants, except by will or the laws of descent and distribution, during the Restricted Period (including the Lockup Restricted Period).

(g) ***Obtaining of share awards***

A participant may not exercise voting rights nor have any rights in respect of the shares underlying the share awards, including but not limited to, any dividends or other distributions, prior to the participant's receipt of an unlock notice.

Share awards held by a participant that are vested as evidenced by the unlock notice may be obtained (in whole or in part) by the participants upon the expiry of restricted period and lapse of all restrictions (if any). The Board may decide at its absolute discretion to direct and procure the Trustee to, within a reasonable time, transfer the shares underlying the share awards (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the participant which the Company has allotted and issued to the Trustee subject to the Participant paying all tax, stamp duty, levies and charges applicable to such transfer.

(h) ***Lapse of share awards***

Any unvested share award will automatically under the scenarios set out below:

(i) the participant's employment with or service for the Group terminates for any reason except retirement, early retirement due to heath problem, permanent disablement, death during employment or redundancy;

(ii) the participant is involved in businesses that are competing with or similar to the Group during his employment period without prior approval from the Company;

(iii) the company employing the participant ceases to be a subsidiary or an affiliate of the Company;

(iv) the participant makes any attempt or takes any action to sell, transfer, charge, encumber, hedge or create any interest in favour of any other person over or in relation to any unvested share awards or any interests or benefits pursuant to the unvested share awards;

(v) the participant violates relevant rules under his/her respective local labour laws, or breaches the employment agreement or non-disclosure agreement with the Group; or

(vi) merger, bankruptcy, insolvency, liquidation and winding up and any other similar events of the Company.

Once share awards have lapsed and after the Shares of the Company are listed on the Stock Exchange, the Company instructed the Trustee to sell that certain portion of the Shares underlying such share awards that remain unvested on the open market. If the sale proceeds are less than the sum of the purchase price that was paid by the participant to acquire the corresponding interests in Tianli Education as specified in the grant letter and such additional amount so as to provide the participant with a rate of return of fifteen percent (15%) per annum as expected proceeds, (1) the Trustee will continue to sell the Shares which are assets of the Trust to be used for the operation and maintenance of the Trust and pay the proceeds to the relevant Participant until the expected proceeds are fully paid; and (2) if the sale proceeds and all the assets of the Trust to be used for the operation and maintenance of the Trust are still not enough to pay the expected proceeds, such shortage shall be paid by Mr. Luo to such Participant. In the event that the sale proceeds are more than expected proceeds, the surplus amount will become assets of the Trust to be used by the Trustee for the administration and operation of the trust.

As at 31 December 2019, a total of 102,056,158 shares, representing approximately 4.92% of the total issued shares of the Company, were granted to selected persons under the Pre-IPO Restricted Share Award Scheme.

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our Shareholders passed on 24 June 2018 and adopted by a resolution of the Board on the same date. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the eligible persons an opportunity to have a personal stake in our Company and help motivate them to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of executives, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group, any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group;

(b) a director or proposed director (including an independent non-executive director) of any member of our Group;

(c) a direct or indirect shareholder of any member of our Group;

(d) a supplier of goods or services to any member of our Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (f) above.

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the listing date (such 10% limit representing 200,000,000 Shares excluding Shares which may fall to issued upon the exercise of the over-allotment option granted by our Company) (the “Scheme Mandate Limit”), representing 9.64% of the issued Shares as at the date of this report, provided that:

(a) our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10% of our Shares in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules;

(b) our Company may seek separate approval from our Shareholders in general meeting for granting options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the eligible person specified by our Company before such approval is obtained. Our Company should issue a circular to our Shareholders containing the details and information required under the Listing Rules; and

(c) the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company (or the subsidiary) shall not exceed 30% of our Company’s (or the subsidiary’s) issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of our Company (or the subsidiary) if this will result in such limit being exceeded.

4. **Maximum entitlement of each participant**

No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of options to such an eligible person would result in our Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such eligible person and his close associates (or his associates if such eligible person is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the eligible person, the number and terms of the options to be granted (and options previously granted) to such eligible person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such eligible person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those options.

5. **Offer and grant of options**

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the adoption date to offer the grant of an option to any eligible person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. **Granting options to connected persons**

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an option is proposed to be made to a Director, chief executive or a substantial Shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an option).

Where any grant of options to a substantial Shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of securities in issue; and

(b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HKD5.0 million, such further grant of options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favor at such general meeting.

Approval from our Shareholders is required for any change in the terms of options granted to a participant who is a substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favor at such general meeting.

7. Restriction on the time of grant of options

The Board shall not grant any option under the Share Option Scheme after inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

8. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

9. Amount payable for options and offer period

An offer of the grant of an option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of our Company of HKD1.0 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date. Such remittance shall in no circumstances be refundable.

Any offer of the grant of an option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the option. To the extent that the offer of the grant of an option is not accepted by 28 days after the offer date, it will be deemed to have been irrevocably declined.

10. Subscription price

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

11. Exercise of Option

(a) An option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the option period in the manner as set out in this Share Option Scheme by the grantee (or his or her legal personal representative(s)) by giving notice in writing to our Company stating that the option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his or her legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his or her legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

(b) The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

(c) The exercise of any option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.

(d) Subject as hereinafter provided and subject to the terms and conditions upon which the option was granted, an option may be exercised by the grantee at any time during the option period, provided that:

   (i) in the event that the grantee dies or becomes permanently disabled before exercising an option (or exercising it in full) and none of the events for termination of employment or engagement pursuant to the terms of the Share Option Scheme exists with respect to such grantee, he or she (or his or her legal representative(s)) may exercise the option up to the grantee's entitlement immediately prior to the death or permanently disability (to the extent not already exercised) within a period of 12 months following his or her death or permanent disability or such longer period as the Board may determine;

(ii) in the event that the grantee ceases to be an executive for any reason (including his or her employing company ceasing to be a member of our Group) other than his or her death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his or her employment to an affiliate company or the termination of his or her employment with the relevant member of our Group by resignation or culpable termination, the option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

(iii) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

(iv) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his or her legal representatives or receiver) may until the expiry of the earlier of:

(1) the option period;

(2) the period of two months from the date of such notice; or

(3) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his or her option.

(v) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily windup our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her options at any time not later than two Business Days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

12. Life of Share Option Scheme

Subject to the terms of this Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects.

All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

13. Lapse of Share Option Scheme

An option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

(a) the expiry of the option period;

(b) the expiry of any of the period referred to paragraphs related to exercise of the option;

(c) subject to the terms of the period mentioned in the paragraph headed "– 11. Exercise of Option" in this section, the date of the commencement of the winding-up of our Company;

(d) there is an unsatisfied judgment, order or award outstanding against the grantee or the Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;

(e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in this Share Option Scheme with respect to the exercise of the option;

(f) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

In the event of any alteration to the capital structure of our Company while any option remains exercisable, whether by way of capitalization of profits or reserves, right issue, consolidations, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

(a) the maximum number of Shares subject to the Share Option Scheme; and/or

(b) the aggregate number of Shares subject to the option so far as unexercised; and/or

(c) the subscription price of each outstanding option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

(a) any such adjustments shall give the eligible persons the same proportion of equity capital as they were previously entitled to. In respect of any such adjustments, other than any made on a capitalization issue, the auditors shall confirm to the Board in writing that the adjustments satisfy this requirement;

(b) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any option shall remain as nearly as practicable same as (but shall not be greater than) it was before such event;

(c) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(d) any such adjustments shall be made to in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and

(e) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

15. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any option in whole or in part by giving notice in writing to the grantee stating that such option is thereby cancelled with effect from the date specified in such notice (the "Cancellation Date"):

(a) the grantee commits or permits or attempts to commit or permit a breach of restriction on transferability of option or any terms or conditions attached to the grant of the option;

(b) the grantee makes a written request to the Board for the option to be cancelled; or

(c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

16. **Ranking of Shares**

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue commencing from (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members. Accordingly, it will entitle the holders to participate in all dividends or other distributions paid or made on or after (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Share issued upon the exercise of an option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

17. **Termination**

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

18. **Transferability**

The option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding option or part thereof granted to such grantee.

19. **Alteration of Share Option Scheme**

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the our Shareholders in general meeting:

(a) any material alteration to its terms and conditions or any change to the terms of options granted (except where the alterations take effect under the existing terms of the Share Option Scheme);

(b) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of grantee;

(c) any change to the authority of the Board or any person or committee delegated by the Board pursuant to the Share Option Scheme to administer the day-to-day running of the scheme; and

(d) any alteration to the aforesaid alternation provisions.

provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of the Listing Rules.

Since the adoption date to 31 December 2019, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme scheme. The remaining life of the Share Option Scheme is eight years and three months.

RESTRICTED SHARE AWARD SCHEME

The following is a summary of the rules of the Restricted Share Award Scheme adopted by the Company on 17 December 2018. The Restricted Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules.

(1) Purpose and objective

The Directors believe that the future success of the Company is closely tied to the commitment and efforts of the Group's key management personnel including Directors and senior management. The purpose and objective of Restricted Share Award Scheme is (i) to recognize and motivate the contribution of the key management personnel and core employees of the Group; (ii) to help the Group retain and attract the selected participants in attaining the long term business objectives of the Company; and (iii) to further align the interests of the Selected Participants directly to the Shareholders of the Company through ownership of Shares.

(2) Term of the scheme

Restricted Share Award Scheme shall be effective from 17 December 2018 and shall continue in full force and effect for a term of 10 years or until such date of early termination as determined by the Board, whichever is the earlier, after which period no further award shares shall be granted or accepted, but the provisions of Restricted Share Award Scheme shall remain in full force and effect in order to give effect to the vesting of award Shares granted and accepted prior to the expiration or termination of Restricted Share Award Scheme.

(3) Eligible participants for the scheme

Pursuant to Restricted Share Award Scheme, the Board may, from time to time, in its absolute discretion, decide the selected participants after taking into various factors as they deem appropriate and determine the number of award shares to be granted to each of the selected participants. The eligible participants include Directors, senior management, managerial staff, school district principals (學區校長), school sector principals (學段校長) and school reserve senior executive (學校後備高管) of the Group.

(4) Maximum number of award shares

The maximum number of award Shares that may be granted under Restricted Share Award Scheme in aggregate shall be no more than 75,000,000 Shares.

(5) Administration of the scheme

Restricted Share Award Scheme shall be subject to the administration of the Board and the Trustee in accordance with the scheme rules and the trust deed. The Board may act through its authorized representative and has duly authorised the chief executive officer of the Company to give instructions or notices to the Trustee on matters in connection with the operation and administration of the scheme and the trust. The Trustee shall hold the Shares and the income derived therefrom in accordance with the scheme rules and the terms of the trust deed. The power of the Board includes and is not limited to:

i. construe and interpret the scheme, make factual determinations with respect to the administration of the scheme, further define the terms used in the scheme; and prescribe, amend and rescind rules and regulations relating to the administration of the scheme or the award of award Shares;

ii. determine the persons who will be granted award Shares, eligibility requirements, the number and grant price of the award shares, and restrictions applicable to such award shares;

iii. make such appropriate and equitable adjustments to the terms of award Shares as it deems necessary; and

iv. amend, add to and/or delete any of the provisions of the scheme rules.

(6) Operation

The Board may, from time to time, in its absolute discretion select the selected participants after taking into consideration various factors as they deem appropriate and determine the number and the grant price of award Shares to be granted to each of the selected participants. In determining the grant price for each selected participant, the Board shall take into consideration matters, including but not limited to, the selected participant's position, experience, years of service, performance and contribution to the Group and the market price of the Shares.

Pursuant to Restricted Share Award Scheme rules, the Board shall cause to pay the Trustee the purchase price and the related expenses from the Group's resources for the award Shares and the Trustee shall apply the purchase price to purchase from the market all of the award Shares to be awarded under Restricted Share Award Scheme and shall hold such Shares until they are vested with the selected participants in accordance with Restricted Share Award Scheme rules and the trust deed. For the avoidance of doubt, all Shares purchased as aforesaid shall only be used for allocation to the selected participants in accordance with Restricted Share Award Scheme rules.

(7) Restrictions on award shares

The award Shares and any rights and interests (including voting rights) therein may not be enjoyed, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by the selected participants before the award shares are vested. The Board may also imposed additional restrictions as it deems appropriate and set out the same in the award notice.

(8) Vesting and lapse of award shares

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 of the award shares; and

ii. 50% of a selected participant's award Shares shall become vested upon the sixth anniversary after the grant of the award shares.

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.

If there occurs any special circumstances which may affect the eligibility of the selected participant or the vesting of award Shares, the award Shares shall be dealt with in accordance with the scheme rules. However, for those which are not currently covered therein, the Board shall, from time to time, have sole discretion to determine how such award Shares should be handled.

(9) Voting rights

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.

(10) Termination

Upon the termination of the scheme, the Trustee shall continue to hold the unvested award shares on trust for the selected participant(s). After all the granted award shares are vested or repurchased in accordance with the scheme rules, all remaining Shares held by the Trustee will be sold and all net proceeds (after deducting all fees, costs and expenses of the Trustee) will be transferred back to the Company. For the avoidance of doubt, the Trustee shall not transfer any Shares to the Company and the Company shall not hold any Shares in any other way whatsoever.

(11) Alteration of the scheme

The scheme may be altered in any respect from time to time by a resolution of the Board.

As at 31 December 2019, under the Restricted Share Award Scheme, the trustee purchased a total of 34,355,000 shares, representing approximately 1.66% of the total issued shares of the Company. A total of 7,724,000 shares, representing approximately 0.37% of the total issued shares of the Company, were granted to Selected Participants under the scheme.

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

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

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Restricted Share Award Scheme, Share Option Scheme and Restricted Share Award Scheme, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2019.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or under the Company's Articles of Association that require the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

CHARITABLE DONATIONS

During the Reporting Year, the Group made charitable donations of RMB0.12 million.

LITIGATION

The Group did not have any material litigation outstanding as at 31 December 2019.

CONTINUING DISCLOSURE PURSUANT TO LISTING RULES

The Company did not have any disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules as at 31 December 2019.

CHANGES IN INFORMATION OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this report and the following paragraph, no change in information of Directors and chief executive is required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

As disclosed in the announcement of the Company dated 23 December 2019, Mr. Shen Jinzhou resigned as non-executive Director on the even date.

EVENTS AFTER THE REPORTING PERIOD

Up to the date of this report, the impact of COVID-19 on our operation have so far been immaterial. We currently have an appropriate response plan in place. For details, please refer to the section headed "Management Discussion and Analysis" in this report. We will continue to monitor and assess the ongoing development and respond accordingly.

AUDIT COMMITTEE

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the Company's auditor is to be proposed at the forthcoming AGM.

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

The PRC, 20 March 2020

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

During the year ended 31 December 2019, the Company has complied with all applicable code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules, save and except for code provision A.2.1 which stipulates that the roles of chairman and chief executive should not be performed by the same individual. Please refer to the sub-section headed "Chairman and Chief Executive Officer" for details.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

THE BOARD

RESPONSIBILITIES

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company.

Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

BOARD COMPOSITION

During the year ended 31 December 2019 and as at the date of this report, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors:

Mr. Luo Shi
Ms. Yang Zhaotao
Mr. Wang Rui

Non-executive Directors:

Mr. Tian Mu
Mr. Shen Jinzhou *(resigned on 23 December 2019)*

Independent Non-executive Directors:

Mr. Liu Kai Yu Kenneth
Mr. Yang Dong
Mr. Cheng Yiqun

The biographies of the Directors are set out under the section headed "Directors and Senior Management" in this report. During the year ended 31 December 2019, the Board has met at all times the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possesses appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merits, and candidates will be considered against objective criteria with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, having due regard for the benefits of diversity of the Board.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" and otherwise disclosed in this report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as the identity of the public companies or organisations and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the CG Code with regards to continuous professional development, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses. The individual training record of each Director received for the year ended 31 December 2019 is summarised below:

Name of Director	Attending relevant training courses, seminars and/or conferences
Executive Directors	
Mr. Luo Shi	✓
Ms. Yang Zhaotao	✓
Mr. Wang Rui	✓
Non-executive Directors	
Mr. Tian Mu	✓
Mr. Shen Jinzhou *(resigned on 23 December 2019)*	✓
Independent Non-executive Directors	
Mr. Liu Kai Yu Kenneth	✓
Mr. Yang Dong	✓
Mr. Cheng Yiqun	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should not be performed by the same individual. Mr. Luo Shi was appointed as the chairman of the Board and an executive Director of our Company on 31 January 2019. Mr. Luo has been the chief executive officer and chairman of Tianli Education since September 2013.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with Article 16.18 of the Articles, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Luo Shi, Mr. Wang Rui and Mr. Liu Kai Yu Kenneth will retire from office by rotation at the AGM, and being eligible, offer themselves for re-election.

BOARD MEETINGS AND GENERAL MEETINGS

For the year ended 31 December 2019, details of Directors' attendance of the Board meetings and general meetings are as follows:

	Attendance/Number of meetings	
Name of Director	**Board meetings**	**General meetings**
Executive Directors		
Mr. Luo Shi	5/5	1/2
Ms. Yang Zhaotao	4/5	0/2
Mr. Wang Rui	5/5	2/2
Non-executive Directors		
Mr. Tian Mu	5/5	0/2
Mr. Shen Jinzhou *(resigned on 23 December 2019)*	5/5	0/2
Independent Non-executive Directors		
Mr. Liu Kai Yu Kenneth	5/5	2/2
Mr. Yang Dong	5/5	0/2
Mr. Cheng Yiqun	5/5	0/2

MODEL CODE FOR SECURITIES TRANSACTIONS

During the year ended 31 December 2019, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Model Code.

Specific enquiry has been made of all the Directors and they have confirmed that they have complied with the Model Code during the year ended 31 December 2019.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for the performance of the functions of corporate governance. For the year ended 31 December 2019, the Board has performed the functions set out in code provision D.3.1 of the CG Code.

BOARD COMMITTEES

The Board has established three Board Committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs.

Each of these committees was established with defined written terms of reference. The terms of reference of the Board Committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request. The majority of the members of each Board committee are independent non-executive Directors.

AUDIT COMMITTEE

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

The Audit Committee has its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The primary duties of the Audit Committee include, among others, (i) assisting the Board in providing an independent review of the financial controls, risk management and internal control systems of the Group; (ii) overseeing the audit process; and (iii) performing other duties and responsibilities as assigned by the Board.

For the year ended 31 December 2019 and up to date of this report, the Audit Committee held 2 meetings.

The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Liu Kai Yu Kenneth	2/2
Mr. Yang Dong	2/2
Mr. Cheng Yiqun	2/2

During the meetings, the Audit Committee reviewed the interim results and report for six months ended 30 June 2019 and the annual results and report for the year ended 31 December 2019, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors.

For the year ended 31 December 2019 and up to the date of this report, the Audit Committee also met with the external auditors without the presence of the executive Directors.

NOMINATION COMMITTEE

The Company has established the Nomination Committee comprising three members, namely, Mr. Cheng Yiqun, Mr. Luo Shi and Mr. Liu Kai Yu Kenneth. Mr. Cheng Yiqun is the chairman of the Nomination Committee.

The Nomination Committee has its written terms of reference in compliance with paragraph D.3 of the CG Code. The primary responsibilities of the Nomination Committee include, among others, (i) reviewing the structure, size, composition and diversity of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of our Group; (ii) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (iii) assessing the independence of independent non-executive Directors.

For the policy of nomination of directors, the Nomination Committee shall consider the experience, knowledge and professionalism of which one could bring to the Board for its efficient and effective functioning.

For the year ended 31 December 2019 and up to date of this report, the Nomination Committee held 1 meeting.

The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Cheng Yiqun	1/1
Mr. Luo Shi *(appointed on 27 June 2019)*	Not applicable
Mr. Liu Kai Yu Kenneth	1/1
Mr. Wang Rui *(resigned on 27 June 2019)*	1/1

During the relevant meetings, the Nomination Committee assessed the independence of the independent non-executive Directors, considered the re-election of Directors and reviewed the structure, size, composition and diversity of the Board.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee comprising three members, namely, Mr. Cheng Yiqun, Mr. Wang Rui and Mr. Yang Dong. Mr. Cheng Yiqun is the chairman of Remuneration Committee.

The Remuneration Committee has its written terms of reference in compliance with paragraph B.1 of the CG Code. The primary duties of the Remuneration Committee include, among others, (i) making recommendations to the Board on our Group's policy and structure for remuneration of all Directors and senior management, and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iii) making recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

For the year ended 31 December 2019 and up to date of this report, the Remuneration Committee held 2 meetings.

The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Cheng Yiqun	2/2
Mr. Wang Rui *(appointed on 27 June 2019)*	Not applicable
Mr. Yang Dong	2/2
Mr. Luo Shi *(resigned on 27 June 2019)*	2/2

During the relevant meetings, the Remuneration Committee reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management, the proposed adjustment of the remuneration packages of the executive Directors and other related matters of the Company.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The senior management's total remuneration paid/payable for the year ended 31 December 2019 (including all executive Directors) by band expressed in Renminbi ("RMB") is as follows:

Band	Number of senior management For the year ended 31 December 2019
Nil to RMB1,000,000	9
Over RMB1,000,001	0

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 98 to 102 in this report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Audit Committee looks into matters in relation to, and arising from, risk management and internal controls. and reports to the Board for consideration. The Group's risk management and internal control systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has an internal audit and control department which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board.

During the year ended 31 December 2019, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The Audit Committee also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review did not reveal any major issues and the Board considers the risk management and internal control systems effective and adequate.

The Group's review procedures involved in the risk management and internal control mainly included:

(1) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.

(2) Risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(3) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(4) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

For the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated to all staff. The Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

AUDITOR'S REMUNERATION

The Company appointed Ernst & Young as the independent auditor for the year ended 31 December 2019. The fees charged for the audit services by the Group's independent auditor are RMB4.27 million. During the year, the remuneration in respect of non-audit services provided by the external professional firm engaged by the Company included the fees of RMB0.3 million for reviewing internal control system and risk management, and the fees of RMB0.12 million for preparing the Environmental, Social and Governance Report.

JOINT COMPANY SECRETARIES

Mr. Wang Rui and Mr. Wong Yu Kit were appointed as joint company secretaries of the Company on 24 June 2018. Mr. Wang Rui is an executive Director the Company. For details of his biography, please refer to the section headed "Directors and Senior Management" of this report. Mr. Wong Yu Kit was the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited. They were responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, applicable laws, rules and regulations are followed.

Mr. Wong Yu Kit has resigned as a joint company secretary of the Company with effect from 29 August 2019. On the same date, the Board appointed Ms. Zhang Xiao, a manager of SWCS Corporate Services Group (Hong Kong) Limited, as a joint company secretary of the Company. Since then, Ms. Zhang Xiao works with Mr. Wang Rui (the primary point of contact at the Company for Ms. Zhang) in discharging their duties and responsibilities as joint company secretaries of the Company.

Mr. Wang Rui and Ms. Zhang Xiao have confirmed that they had taken not less than 15 hours of relevant professional training during the year of 2019.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business, performance and strategies. The Company endeavors to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, the chairmen of Audit Committee, Remuneration Committee, Nomination Committee or, in their absence, other members of the respective committees, will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

The Company has not made any changes to its Articles of Association during the year ended 31 December 2019. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Pursuant to article 12.3 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. General meetings shall also be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

The requisition must state clearly the name of the requisitionists, their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM and signed by the requisitionists.

ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Room 4309, Tower 1, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
Email:	ir@tianlieducation.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Environmental, Social and Governance Report

ABOUT THE REPORT

Basis for Compiling the Report

The Report is the second Environmental, Social and Governance (ESG) Report issued by the Company and has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Report preparation is based on reporting principles of importance, quantification, balance and consistency.

Time Range for the Report

The time range of the report covers the period from 1 January 2019 to 31 December 2019 (hereinafter referred to as the "Reporting Period") and part of its content will be appropriately dated back to previous years, so as to enhance comparability and completeness of this report.

Report Boundary

The Report fully discloses information and key performance of the Company and its schools under official operation in the environmental, social and governance aspects, among which, the statistics scope of part of key performances will be detailed in this report.

Sources of Data and Reliability Assurance

All information and data used in the report are prepared based on the internal official documents and internal statistical reports of the Company and its schools, or public information. The Company warrants that there are no false or misleading statements in this report, and is responsible for the authenticity, accuracy and completeness of the contents herein. Upon confirmation from the management, the report was approved upon deliberation by the Board of Directors on 20 March 2020.

ESG GOVERNANCE

With the vision of "building Tianli Education into an excellent company, and fostering fruitful lives for students and teachers" and committed to becoming an innovator and leader in the PRC's fundamental education sector, the Company has developed distinctive corporate development philosophy, which builds on the "Geese spirit" corporate values covering six aspects, including "student-oriented", "teachers' happiness", "education at both schools and communities", "heritage and integration", "sustainable development" and "being proactive". By incorporating sustainable development into its corporate management and school operation, the Company seeks to better meet the expectations of all stakeholders by adhering to the school motto of "descendant of heaven, help students accomplish themselves and benefit others" and striving to achieve "personalized, nationalized, globalized" enterprise development strategy.

Governance Structure

The Company has always paid close attention to ESG-related management and information disclosure requirements published by SEHK and constantly improve their own level of ESG management while keeping rapid growth. In 2019, The Company set up an ESG working group which is led by its senior management and listing office in cooperation with its centers in relation to risk control and internal audit, education management, brand management, HR & administration, and various schools and other supporting segments to carry out information collection and integration work such as ESG relevant policies and systems, thereby further improving the ESG data management mechanism. Meanwhile, listing office regularly reports to the Board of Directors on ESG reporting and disclosures, and the report is disclosed upon deliberation by the Board of Directors. Going forward, the Group will continue to develop its ESG working mechanism, improve ESG policies and guidelines, and constantly enhance ESG governance efficiency.

Communication with Stakeholders

While managing schools and creating value, the Company has paid close attention to and actively identified the demands and expectations of various stakeholders including investors/shareholders, employees, students, parents, governmental/regulatory agencies, communities and the public. Through its diversified communication channels and sophisticated communication and feedback mechanisms, the Company fully understands the needs of its stakeholders and offers solutions to help promote the sustainable development of both the Company and its stakeholders.

Stakeholders' Communication Table

Stakeholders	Expectations for the Company	Communication & Response Measures
Investors/Shareholders	Operation compliance	General meetings
	Protecting shareholders' interests	Announcements and press releases
	Open and transparent information	Annual reports
		SEHK/company website
Corporate Employees	Good platform for professional development	Conferences/teaching and research activities
	Competitive remuneration packages	Interviews to each department of the Company
	Healthy and safe working environment	On-site visits to school districts
		Internal staff training/assessments
		Employee satisfaction survey
Students	Comfortable learning environment	Students satisfaction survey
	Exposure to diversified activities	Themed class meetings/lectures
		School principal's mailboxes

Stakeholders	Expectations for the Company	Communication & Response Measures
Parents	Excellent teaching quality	Parents meetings
	Positive atmosphere at schools	Education expos
	Dietary safety and campus life assurance for students	School principal's mailboxes
Environment	Rational use of resources	Green campus
	Efficient use of water and electricity	Green office
	Compliant waste disposal	Dissemination of green ideas
	Pleasant campus environment	Campus landscaping
	Green teaching	
Suppliers/partners	Long-term and win-win cooperation	Suppliers evaluation
	Fair competition	On-site visits to suppliers
	Product quality assurance	Exchange meetings for suppliers
		Strategic cooperation
Governmental and regulatory agencies	Operation compliance	Compliance reporting
	Safe teaching environment	On-site inspections
	Social practice and contribution	Participation in conferences/seminars
	Ensuring information security for students and parents	
Communities/public	Charity projects	Activities for public good
	Social activities of students	Charity activities
		Voluntary activities

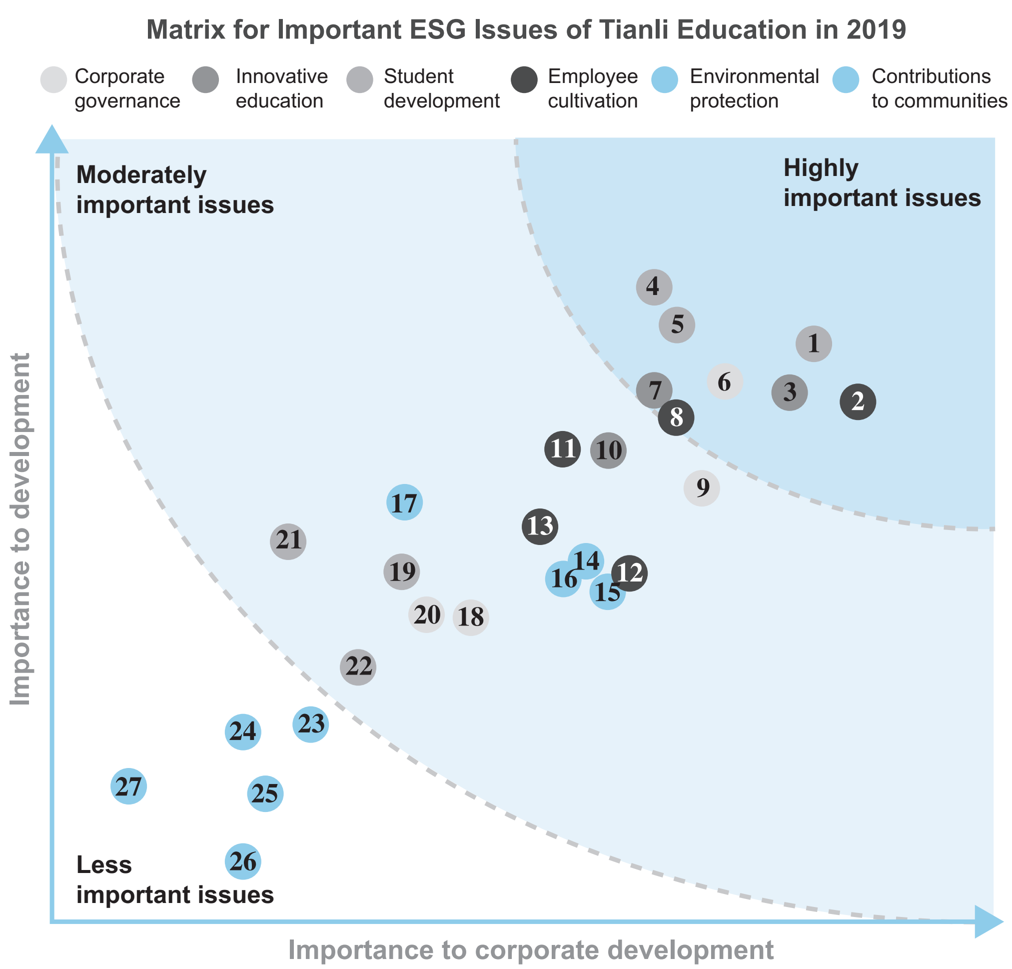
Material Issues

Identification and Assessment

In order to deeply understand the stakeholders' expectation and comments on ESG matters, since the first ESG report is compiled, the Company regularly conducts communication work with stakeholders in planned steps. In 2019, except for keeping regular communications with stockholders in the ordinary course of business, the Company also carries out interviews with various departments and on-site visits to school districts, and jointly discusses ESG matters with the managements, teachers and students and logistics staff, and conducts systematic review and combing over the work in relation to ESG matters in the charge of each department, and they offer very valuable opinions on identifying the substantiality of ESG issues and preparation of this report.

The Company conducts a comprehensive stakeholder survey questionnaire every two years. In 2018, the Company used a method of survey and questionnaire to invite internal and external stakeholders to sort out the importance of ESG issue and mapped the results into a matrix of importance to show the relative importance and impact of 27 issues on stakeholders and the Company's business. By investigating and reviewing, we have identified eight substantial issues, including "teaching quality assessment and management", "faculty management and structure", and "teaching talents recruitment system and management". These issues will be fully discussed in the report. The Company will also pay close attention to them when formulating its internal development strategies and management policies.

Matrix and List



Sorted List for Important ESG Issues

IMPORTANCE	SEQUENCE	ISSUES
Highly important issues	1	Teaching Quality Assessment and Improvement
	2	Faculty Management and Structure
	3	Teaching Talents Recruitment System and Management
	4	Dietary Assurance for Students
	5	Security and Health Assurance for Students on Campus
	6	Protecting Privacy and Ensuring Information Security for Students and Parents
	7	Curriculum R&D Innovation and Education Mode Diversification
	8	Ensuring Safety and Occupational Health for Employees
Moderately important issues	9	Internal Anti-corruption Systems and Measures
	10	Integration and Enhancement of Educational Resources
	11	Appearance, Professional Ethics and Morality Construction, and Regulation for Teachers
	12	Employee Remuneration and Welfare
	13	Employee Training and Career Development
	14	Environmental Protection Awareness Cultivation and Courses
	15	Water Resource Utilization and Water Conservation
	16	Green Campus and Office Environment
	17	Greenhouse Gas Emission and Reduction
	18	Complaint Processing Procedures and Service Improvement for Students and Parents
	19	Participation in Social Practice Activities by Students
	20	Appointment, Review and Management of Suppliers
	21	Communication between Teachers and Parents and Information Release by School
	22	Student Satisfaction
Less important issues	23	Education, Protection and Promotion of Local Culture
	24	Impacts on Neighboring Community Environment
	25	Energy Consumption Management
	26	Wastes Management
	27	Participation in Community Development and Social and Charity Activities

STUDENT-ORIENTED

In providing educational services, the Company has always given priority to the educational concept of "cultivating role models in ethics". By constantly innovating teaching models with a view to strengthening the practices on fundamental education, the Company has improved teaching quality and ensured service quality and is committed to providing excellent, safe and healthy schools with high-quality for students and cultivating excellent talents who are family-oriented, patriotic, upright, responsible, and can contribute to the PRC's national rejuvenation.

Innovating Education Models

The Company has always adhered to the idea of inheriting, integration, reform and innovation, continually developed educational ideology and curriculum with Chinese characteristics, and achieved fruitful teaching and educational research results in close combination with practices for school fundamental education.

Innovatively Formulate A Unique Curriculum System Featuring "Six Establishments and One Accomplishment"

In 2019, the unique curriculum system featuring "Six Establishments and One Accomplishment" innovatively formulated by the Company has basically been formed after years of research and development and continued improvement by a team of educational experts at home and abroad. The system centers around seven crucial objectives in terms of health, morality, wisdom, behavior, attitude, mind and creativity and categorizes courses based on core literacy, providing creative educational experience in the cultivation of Tianli students.

Currently, the quality education curriculums system featuring "Six Establishments and One Accomplishment" has gradually explored the models covering from curriculum development to the application thereof. During the Reporting Period, we have developed a unique nature of excellent education courses with Tianli Education characteristics, such as "Idyllic Curriculum", "Ladder Reading", and their curriculum concept is seamlessly linked with the original curriculum system by combining the cultivation of core literacy closely with subject teaching and setting a sound foundation for the healthy growth of our students. In order to adhere to the cultivation system of "Six Establishments and One Accomplishment", each school has developed distinctive teaching conception and curriculums in light of its own educational practices. With the curriculum featuring "Six Establishments and One Accomplishment" as a carrier, Tianli Ziyang School innovatively puts forward the teaching quality conception of "San Quan Si Ke" to control the quality of teaching with the concept of whole-person, globalization and whole-course and improve the quality of teaching from four aspects: classroom, curriculum, subject and course, laying a solid foundation for the improvement of students' academic level and comprehensive literacy.

In January 2019, the Company held the first Curriculum Expo for Human Education's Six Establishment and One Accomplishment to deliver stage results for curriculum development to various circles of society and each school district through excellent courses display, observation and exchange.

Actively Innovative to Embrace Technology

In the meantime, the Company actively embraces technological revolutions in the era of informatization and artificial intelligence and continually innovates its smart education management system and operations system to satisfy demands of students, parents and the society for excellent education services. The Company has pushed forward with its Smart Campus Project. It tracks, monitors and analyzes big data about the growth of children, parents, and teachers through a big-data information system it sets up covering children from 0 to 18 years old. Leveraging the available information, the Company customizes educational growth systems for children to continually identify and meet their needs for personalized growth and brings an overall upgrade to schools' services and functions.

Optimizing Teaching Quality

Classroom teaching effectiveness is the major factor directly affecting education and teaching quality and student cultivation at schools. In 2019, the Company further optimizes the construction system for teaching quality and revises the Quality Management System for Classroom Teaching by defining clearly classroom standards and operations, teaching management conception and therefore forming quality monitoring and management mechanism for classroom teaching and implementing the regular classroom supervision system.

The main tasks stipulated under the Administration System for Classroom Teaching Quality are as follows:

- The basic ideas and methods on quality management in classroom teaching are combed out;
- Teaching Administration and Operational Requirement covering eight respects, including team of famous teachers, seedling students, teaching and research system and mechanism, discipline construction, teaching management, teaching method and learning method, integration and promotion channels, is clearly set out;
- To establish monitoring and management mechanism for classroom teaching standards and carry out course refinement by teachers and classroom supervision and etc. on a regular basis.

Moreover, the Company also launched such systems as School Joint Teaching and Research System, Regulations on the Management of School Teaching and Research Work, Measures on Teaching Quality Assessment and Incentives by improving the teaching and research working methods and implementing teaching quality inspection and management mechanism. In the field of discipline management, the Company has also revised the Regulations on the Construction and Management of School Subject Groups and Quality Groups in order to integrate the resources of school's teachers and strengthen the construction of various disciplines in various sections of the school.

At the same time, in order to quickly improve the quality of the Company's teaching, the Company proposed a "2250" plan to clarify teaching objectives, set each campus teaching quality improvement strategy and implementation path. To this end, we have taken a series of measures to improve the quality of education:

- Study the new college entrance examination policy comprehensively from the aspects of selecting subjects, choosing courses and walking classes, constructing and developing courses, developing students' comprehensive quality and promoting their education channels, and study the lessons and experiences of the first provinces and municipalities, and put forward response program for Tianli Education;
- "Teachers Reserve Plan for Beijing University & Tsinghua University" is launched to hire an excellent team of teachers in a bid to improve the teaching level;
- provide academic support for the improvement of test preparation quality by organizing Examination Outline interpreting activities and joint teaching and research activities by various schools;
- Carry out exchange and sharing of simulated test questions so as to greatly improve the teachers' ability of proposition and the research level of subject group.

Our schools carried out course refinement and course sharing on a regular basis through educational research activities organized by quality teams and course teams, and held high-quality course contests among teachers covering different educational levels. During each semester, we conduct supervision, acceptance and assessment over all teachers' classroom teaching quality and appraises and selects outstanding individuals in classroom teaching and offers them spiritual and material rewards, creating a good atmosphere of improving classroom teaching quality and laying a solid foundation for producing high-quality teaching theoretical results. In 2019, a total of 1,015 our students won national prizes, 1,254 received provincial prizes, and 1,153 obtained municipal prizes.

Ensuring Campus Safety

Ensuring campus safety for students serves as the foundation for educational enterprises to survive and for every student's healthy growth. In 2019, the Company further strengthened and enhanced the safety management level by strictly implementing the administration systems in relation to safety on campus and logistics food in an effort to ensure campus safety and was highly praised by students, parents and regulatory authorities. During the Reporting Period, no material safety accidents occurred at our schools.

Campus Safety

The Company complies with the Fire Protection Law of the People's Republic of China, the Interim Provisions on Campus Environment Management for Primary and Middle Schools issued by the Ministry of Education, the Measures for Handling Student Injury Accidents issued by the Ministry of Education, the Rules on Safety and Protection Work at Primary and Middle Schools and Kindergartens (trial implementation) and other applicable laws and regulations. We have gradually improved internal rules such as the Instruction Manual for Campus Safety Management and issued the Rules on Strengthening Regular Checks of Campus Safety; established School Safety Working Mechanism with the Principal as General Persons-in-charge; and further standardized and managed various aspects in terms of safety check, safety accident handling process and safety management responsibility for persons at all levels so as to ensure personal safety for the students and teachers. Our schools have also developed localized safety management policies and systems based on their own circumstances.

Fire Safety

In terms of fire safety, our schools have developed systems such as the Management System for Safe Evacuation Facilities in Teaching Areas, the Management System for Fire Safety in Dormitories, and the Patrol and Inspection System for Fire Safety. The Company has formed a leading group concerning safety work, and holds meetings on safety work at schools on a regular basis and assigns safety education, inspections and corrective tasks to schools and has a safety supervision office in place to conduct supervision and inspection so as to timely eliminate campus safety hazards, making safety inspection to be a part of its schools' regular routines.

School Bus Safety

In terms of school bus safety, schools have formulated rules such as School Bus Safety Rules and the Rules on Performance Review of On-board Teachers and Drivers and the Safety Responsibility Statement for School Bus Drivers pursuant to the Safety Management Regulations on School Bus by the State Council and Implementing Measures for School Bus Safety Management by Sichuan Province, it shall establish a system of accountability for driving safety, improve the system of regular inspection and maintenance of school buses, and provide for the safe operation of school buses, the monitoring of school buses by GPS personnel, the handling of school bus violations and accidents, and the management of school bus operation routes. At the same time, schools conduct safety training and education for school bus drivers so as to ensure that they shall send every student to the destination in a timely and safe manner. Schools have also released the School Bus Contingency Plan and carried out emergency drills to properly deal with emergencies such as traffic accidents and ensure that students come to and leave schools safely.

Education on Safety

Education service providers are obliged to cultivate and improve students' safety awareness. Every year, our schools formulate such rules as Safety Publicity and Education System, Emergency Plan for Schools to Handle Emergency Events, Safety System for Collective and Large-scale Activities, requiring them to draw up and implement School Safety Education Plan in a bid to strengthen the students and teachers' skills for prevention and hold activities such as fire safety drills, earthquake emergency evacuation drills, rallies and large-scale evacuation drills every year on a regular basis to ensure that students and teachers can deal with emergencies in a calm manner. Schools have also incorporated the cultivation of students' self-protection awareness into daily teaching, and held themed class meetings and safety lectures irregularly, which parents are invited to attend, to build a "safety net at both schools and homes". In 2019, the schools conducted emergency safety evacuation drills to keep the students and teachers well informed of campus safety escaping routes and strengthen awareness for safety prevention and self-rescuing ability and has played a positive role in ensuring the health and life safety of teachers and students.

Students Diets

We understand that food safety is the foundation for ensuring students' physical health. Balanced nutrition is a key factor in promoting students' healthy growth. The Company strictly complies with the applicable laws and regulations such as the Food Safety Law of the People's Republic of China, the Operation Standards Concerning Food Safety for Catering Services, and the School Canteen Food Safety Management Measures of Sichuan Province, revises the Standardized Manual for Logistics Services, defining clearly the standards, process, appraisals for students' logistics services and other management and operational requirements and has formulated a series of management systems for support services covering all processes.

- On the control of food sources, the Food Procurement and Transport Hygiene System strictly stipulates special vehicles for purchasing foods and handling procedures and requires establishing the purchase account for food raw materials, from the source to ensure the safety of fresh food;

- On the storage of foods, the Food Storeroom Hygiene System clearly defines food storage report container and special store cleaning and other work and operational procedures, unifying food table hygiene standards;

- On the food sampling, the Food Sampling Administrative System stipulates the category, quantity and time of the sample and inspection persons and etc. in order to ensure the effective food safety inspection;

- On the tableware cleaning, the Food and Beverage Cleaning and Disinfection Hygiene System requires regular records of disinfection, the type of detergent used for food, cleaning time, etc.;

- On the handling of emergencies, the Food Poisoning Incident Handling Plan, Student Acute Illness Treatment Plan stipulate the acute incident reporting procedures, handling process and other aftercare work by school in cooperation with parents;

- On the employee standards, the Regulation on the Supervision and Management of Occupational Health in The Workplace clearly stipulate that the employees in canteens must have medical examination regularly and wear working clothes.

Our schools have set up a leading team for managing school canteens and established the principal accountability system. We have also assigned full-time (part-time) food safety administrators to canteens based on their scale, set up catering committees consisting of logistics persons-in-charge, and intensified the management of canteens at schools to ensure food quality. In addition, through holding small press conferences periodically to release new dishes, the Company has kept the majority of students and parents well informed of reasonable dishes mix for children and teenagers, nutrition and safety of food and cooking and so on.

In 2019, the Company held the first Cadres Training Workshop for Logistics Management to train the management trainees for logistics services of various school districts in a bid to enhance their systematic thinking ability, management level and service skill quality and safeguard the dietary safety for students. On the joint management of diets by the parents and school, we invited students and parents to participate in thematic meetings and be involved in the management of school canteens from these respects including food purchase channel, food quality, processed workflow, cleaning and disinfection protection, dishes' color, fragrance and taste mixing with nutrition and etc.

The positive efforts exerted on food safety and logistics services by the Company have been widely recognized by students and parents. In 2019, we achieved 88.8% (i.e. 4.0% increase from 2018) overall satisfaction from students and parents over logistic services, and 86.2% (i.e. 8.2% increase from 2018) overall satisfaction over food safety and dietary services under the survey for school-running quality by the Company. During the Reporting Period, no food safety accidents occurred in our schools.

TEACHERS HAPPINESS

Teachers are the Company's core competitiveness. The Company takes the cultivation of teachers as a cornerstone for its perpetual success and provides a broad development platform for every teacher to establish their self-values and takes teachers happiness as an important factor in enterprise cultures and importance is attached to safeguarding teachers' salaries and benefits and thus enabling them to enjoy a happy and meaningful educational career.

Development Path

The Company always practises people-oriented management conception and effectively safeguards teachers' interests and paves ways for long and stable development of the team of teachers. We endeavour to cultivate and develop our employees. We offer competitive benefit packages for them, and help develop every teacher so as to accomplish oneself and benefit others.

Equal-Employment

The Company complies with all the applicable laws and regulations, including the Labor Law of the People's Republic of China, the Teacher Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Minors, and the Regulations on the Prohibition of Child Labor. It has formulated the Personnel Management System to regulate human resources planning, recruitment, talent management, remuneration and benefit at its various schools. The Company adheres to the employment principle of equality and diversification, and eliminates discrimination against genders, nationalities, marital status, and religions of employees so as to ensure the interests of employees in various segments of recruitment, training and promotion for employees. It strictly prohibits child labor and forced labor. Since its inception, there was no forced labor nor child labor. In 2019, the Company further strengthened employee labor contracts management, and formed an institutionalized, standardized and streamlined personnel management system. As at the end of the Reporting Period, the Company had a total of 5,299 employees of which 3,729 (i.e. 70%) are females. All the employees have signed employment contracts with the Company.

Remuneration and Welfare

The Company strictly complies with the Law of the People's Republic of China on Social Insurance, the Law of the People's Republic of China on Personal Income Tax and other laws and regulations, and withholds social insurance, provident fund, enterprise annuity and individual income tax from employees' wages. The Company insists income shall be obtained from labor and remuneration shall be linked with performance. In 2019, each school has continuously revised and improved systems and rules including the Employee Remuneration and Performance Scheme, the Benchmark Management Measures and the Teacher Title and Remuneration Management Plan by following the idea of benchmark management and updates the salary standards according the State stipulations and adheres to the principle of more pay for more work and formulates Performance Assessment Criteria for Combining Professional Title with Comprehensive Performance and selects the recipients of "Bole Award" and "Benchmark Award" based on employee performance assessment results. Through the award of incentives to staff, it constantly creates continuous breakthroughs and improves the quality of teaching.

In terms of employee welfare, the Company has formulated the Employee Welfare Measures based on the principle of providing employees with upper-middle-level benefits in the industry based on their positions and dynamically adjusting such welfare benefits. It provides employees with five types of social insurances and housing fund, paid maternity leave, paid sick leave, paid funeral leave and other statutory benefits, as well as holiday condolences, marriage and child condolences, funeral condolences, rental and housing subsidies, living allowances, loyalty awards and other benefits. In addition, the Company provides preferential admission policies for employees' children, who are entitled to tuition discounts or full tuition waiver. The enrolment benefits are extended from the first child of employees to their second child, raveling out employees' concern about their children's enrolment.

Promotion Channels

The Company has continually improved its talents cultivation mechanism, comprehensively considers the development needs of teachers and administrative staff and their growth patterns and constructs the development path of "H-style" talents in all respects. Employees can choose a career path appropriate for them based on their professional needs, development and interest. For teachers, the Company has established a title promotion channel featuring "Level 1-Level 2-Senior-Special-Chief" to match teachers' teaching ability with their positions and titles. For administrative staff, the Company complies with the Administrative Position Promotion Management System, stipulates the administrative promotion channel featuring "teacher-middle-level cadre-backup cadre-school principal-school district principal-large school district principal", enabling teachers with management ability and interest to have new career options and allowing the right persons to serve at the right positions and do the best they can.

Physical and Psychological Health

The Company cares for physical and mental health of employees with a high sense of responsibility so that employees enjoy quality medical resources and services. It has formulated the Administrative Measures for Preventive Health Inspection and organizes health checkups for its employees every year. In the meantime, the Company appointed a third-party insurance company to develop comprehensive customized insurance plans for its employees, and purchased commercial insurance for every employee, including accident insurance and critical illness insurance. In 2019, the Company re-upgrades employee commercial insurance benefits, increases public transport accident insurance, and cooperates with leading domestic medical institutions such as Huaxi Hospital to provide staff rapid medical treatment service, general practice online doctor service, and purchases more inpatient medical insurance for core employees so that employees can enjoy adequate medical protection, while calling on employees to take good care of their physical and mental health and prevent diseases.

Bringing Up Teachers with Virtue and Talent

Bring up teachers with virtue and talent is the Company's unremitting pursuit. Under the guidance of the 2250 program, the Company focuses on developing the core competencies of the faculty. Based on the principles of "systematic training, teaching students in light of their aptitude, and helping students apply what they have learned in the classroom to their real life", the Company has developed the Training Management Measures, the New Teacher Cultivation Manual and the Training Curriculum System and formed a systematic, standardized and professional talents cultivation system featuring "San Yan Qi Fei (三雁齊飛)" and "four drivers (四輪驅動)" in a bid to build the necessary learning opportunities for employees to grow and provide sufficient impetus for future enterprise development. As of the end of the reporting period, among teachers of the Company, 47 received national teacher awards, 76 received provincial awards, and 140 received municipal awards.

Teachers Cultivation

With "San Yan Qi Fei" as the center, the Company builds talent echelon standardization training system by providing clear career development road for different levels of teachers, matching outstanding development resources, promoting the construction of standardized, processed and systematized talented person pipeline. Under the talent system of "San Yan Qi Fei", each school carries out teacher training according to local conditions to promote their development. In 2019, the total number of employees trained is 2,540 with 72.7 average training hours per person.

- **The "Xin Fei Yan (新飛雁)" program that helps empower the cultivation of new teachers.** For intern teachers and new teachers, through joint cultivation with universities and colleges, case teaching, and competition-driven learning programs, the Company helps new teachers to be integrated into Tianli Education Culture at the earliest opportunity and enhance their professional teaching skills and construct teachers' virtues and ethics. A number of cultivation projects such as the "Fledgling Training Program (雛雁計劃)", the "Up-and-coming Elites Project (青藍工程)", and the"Soaring New Project (新雁出谷，逐夢天際)" have been initiated. In 2019, the"Up-and-coming Elites Project" has been widely carried out in Luzhou, Xichang, Cangxi school districts by giving full play to the positive role of old teachers in spreading, helping and taking, and helping new teachers to grow up in pairs of teachers and disciples with close interaction between them in a bid for common improvement

- **The "Jing Fei Yan (競飛雁)" program that helps accelerate the cultivation of middle-tier talents.** For school-level managers and management trainees, an individual development plan (IDP) is established, which tracks and assesses management trainees in terms of five aspects – systematic thinking, operation and management ability, mentality and values, career planning, and leadership. Management trainees receive both online and offline training. The Company offers training sessions to them based on their own capabilities to help them improve their overall qualities.

- **The "Gao Fei Yan (高飛雁)" program that helps strengthen senior management power.** Towards senior management, by combining with benchmarking school experience research, theoretical study at the forefront of colleges and universities, external education forum study, etc. it is led by inhouse seminars to conduct leadership training and strengthen their operational and management ability, enhance their systematization and overall thinking ability, and thereby providing powerful support for their career development and value enhancement. In 2019, the Company held the "Tianli Reality School Senior Management Workshop", which is taught by Chairman of the Board of Directors for senior management, to enhance their strategic thinking, management ability and leadership in a bid to promote the steady development of enterprises.

In addition to company-wide unified training, each school also sets up targeted, professional training projects and teaching and research activities according to the actual situation of school teaching, students, teachers and so on. Deyang Tianli School carries out expert high-end training, future backbone teacher discipline growth training and general training to synchronically achieve high-end leadership, focus training and basic strengthening for teachers. Guangyuan Tianli School explores training models, implements various new training projects such as teacher assignment study, distance and modern media viewing, forum exchange, small-scale experience-based practical learning, professional interactive research-based practical learning and so on. In addition, each school will carry out class competition, famous teacher demonstration class activities on a regular basis in order to promote teachers to exchange study and enhance skills.

The training system of "San Yan Qi Fei" has successfully trained a group of excellent teachers, who have worked hard and made extraordinary achievements in their respective ordinary posts, by creating the Company's leading quality of running schools and leading the fine styles and features of teachers and students, and vividly interpreting the Company's lofty ambition and pursuit of excellence for "Geese spirit". On October 19, 2019, the Company held the 2018-2019 commendation ceremony to honor the outstanding teachers and staff by recognizing and affirming the ability of the teachers and staff and extending appreciations to them for their hard work.

Talents Training

The staff of our four major departments – human resources, logistics services, enrollment advertising and finance – offer strong support for student education and company growth. The Company has developed a professional cultivation system driven by four drivers – talents, services, enrollment advertising and finance, and has gradually improved and standardized its professional training systems for relevant departments. It has helped improve service staff's on-the-job professional skills and service ability by offering pre-job training sessions and holding training seminars for core teams.

Enjoying the Education Profession

The Company is committed to creating a warm, happy working environment filled with happiness for employees. The Company pays attention to the demands of employees by organizing caring activities to bring care and condolences to employees, thereby forming a corporate culture of helping each other, and growing jointly with employees. At the same time, the Company carries out a variety of staff activities to enhance staff interactive exchange and boost staff cohesiveness.

Establish Trade Union to Practice Democratic Management

In 2019, the Company established a trade union to timely hear employees' demands and organize staff life. The trade union has built up a transparent, convenient and effective bridge for communication between employees and the management to learn about employees' voices through various measures such as opening Principal's mailboxes, holding interview days and organizing meetings. It fully respects employees' rights to protect and receive their legitimate interests, regularly carries out surveys on employee satisfaction, promptly solves problems raised by employees, and listens to their suggestions.

Caring About Employee Life and Offer Support for Employees in Difficulties

The Company is committed to creating a spiritual home for employees by carrying out lantern riddles and other activities in the Mid-Autumn Festival, Dragon Boat Festival and other traditional festival to promote staff mutual communication, enhance staff vitality and mental outlook and boost corporate cohesiveness. The Company is concerned about difficult staff and has set up the Tianli Charity Fund to carry out special support programs for employees and offer necessary financial and spiritual support to employees in difficulties.

SUSTAINABLE DEVELOPMENT

The Company strictly complies with all the applicable national and local laws and regulations and has set up compliance management systems to ensure operational compliance. It adheres to and advocates the concept of environmental protection and integrates the notion of green development into daily work and teaching to achieve sustainable development and continually create greater value for the society.

Ensuring Operation Compliance

Operation compliance is our bottom line. To ensure effective monitoring, whistle-blowing, investigation and handling of non-compliance as well as information transparency, the Company continues to refine risk control and the management system of internal audit. Meanwhile, it keeps improving intellectual property protection, internal anti-corruption, student enrollment and privacy protection to guarantee the healthy and stable operation of the Company.

Risk Control

During the reporting period, the center overseeing risk control and internal audit perfected the Administrative Measures for Internal Audit to independently assess and monitor the legitimacy and authenticity of the Company's economic activities and financial income and expenditure, and strengthens its efforts to monitor and control relevant activities. In 2019, to further intensify internal control, the Company looked for such material risks regarding internal control as non-standard governance, management system loopholes, and accordingly upgraded its internal management system and educated staff about risk control. It established a risk control matrix by conducting risk management, internal audit, special management audit and sorting out business modules. Moreover, for stronger internal control, all staff were educated on the idea of risk control through compliance and legal training as well as examples of non-compliance with rules and laws.

Anti-Corruption

The Company complies with all the anti-corruption and anti-bribery laws and regulations such as the Criminal Law of the People's Republic of China, the Company Law of the People's Republic of China and the Anti-Unfair Competition Law of the People's Republic of China. It has formulated the Monitoring Management System, the Administrative Measures for Austerity Talks, and the Administrative Measures for Invited Supervisors, and strictly monitors key areas and key links relating to anti-corruption and anti-bribery by appointing invited supervisors to both the Company and its schools. During the reporting period, no corruption or fraud occurred at the Company.

In 2019, by revising the Administrative Measures for Punishment of Non-compliance with Rules and Regulations by Staff, the Rules for the Implementation of Exit Audit and the Administrative Measures for the Turning Over of Accepted Gifts (Money), the Company consummated system and processes of anti-corruption monitoring, the system of rewarding and encouraging whistle-blowing and clarified measures and processes to protect whistleblowers. It held pre-job austerity talks with new management members and offered irregular anti-corruption training sessions to eliminate corruption and fraud at the source.

The Company has also formulated the Administrative Measures for Complaints and Whistleblowing to clarify its processes of handling internal reports. It has set up mailboxes to handle complaints, including the president's mailbox and the mailbox for risk control and internal audit-related issues, thus building well-functioning whistleblowing channels. At the same time, to protect whistleblowers, relevant staff in charge may not divulge any information concerned.

In addition, the Company has formulated the Guidelines for Compliance Management, which covers anti-corruption, to further clarify what are and how to follow compliance and legal processes and who shall take in charge. The guidelines will be adjusted subject to their performance to close any loopholes and ensure anti-corruption actions are implemented.

Protecting Intellectual Property

The Company complies with all the applicable laws and regulations such as the Patent Law of the People's Republic of China, the Copyright Law of the People's Republic of China and the Patent Cooperation Treaty of the People's Republic of China. It encourages and supports the protection of teaching and research results by applying for patents and copyrights. It protects its schools' intellectual property from infringement by sorting out intellectual property materials at its schools and cooperating with intellectual property consulting firms. Meanwhile, it strictly requires its schools to use legitimate educational and teaching materials to avoid intellectual property infringements.

In 2019, the Company announced a comprehensive core plan for the internal management systems and processes of intellectual property protection and established an interdepartmental team to protect intellectual property. It sorted out and managed trademarks in the name of the Company and its chairman so that they were used according to laws and regulations. Pursuant to the core plan, each department shall assess the intellectual property under its management semiannually (take IT Department, who is responsible for software copyright). Looking forward, the intellectual property team will work to normalize such processes in order to encourage and protect innovations.

Protecting Information Security

The Company complies with all the applicable laws and regulations such as the Advertisement Law of the People's Republic of China. It revised the Brand Management System and the Administrative Measures for Publicity Work in 2019 to protect students' portrait rights. It prohibits false propaganda and enrollment discrimination in the enrollment process, and fully respects students in terms of gender, belief and nationality. It has developed the Administrative Measures for Confidentiality Work, and protects the information security of privacy of students and parents by limiting employees' access to internal documents and entering into confidentiality agreements with its employees. It also monitors the security of its information platforms on a regular basis to protect its information systems from virus and hacker attacks, prevent information leakages and protect the rights and interests of students and parents.

Protecting the Environment

As a leading education business, the Company sees it as a duty to disseminate green ideas and knowledge, adheres to the guideline of green development, and creates value for the environment. It complies with the relevant laws and regulations such as the Environmental Protection Law of the People's Republic of China and continually improves its own environment management systems to create a green and environmentally friendly campus. It follows the local environmental policies to raise staff's environmental awareness and encourages students to devote themselves into environmental protection. During the reporting period, no material environmental non-compliance occurred at the Company.

Green Campus

The Company commits to infusing the building and management of campus with green concepts to create a green garden-style campus. Particularly, it pays great attention to the discharge of waste gas and water and the disposal and recycling of various wastes and proactively reduces energy consumption and improves energy efficiency in realizing green development.

Emission Management

The emission management system of each school under the Company fared well in reducing emissions. For the emission of cooking fumes, its schools utilize "static fume purifiers", which are of low energy consumption and high efficiency while reducing emissions and energy consumption in kitchen, to collect and purify fumes in accordance with the Emission Standards for Cooking Fumes for Catering Industry. For the emission of canteen wastewater, its schools use oil-water separation devices to filter and precipitate in stages and engage qualified agencies to dispose of oily dirt. For the emission of kitchen garbage, its schools engage qualified professional agencies to collect, transport and properly dispose of everyday canteen wastes. For lab wastes, light tubes and toner cartridges generated during teaching activities, its schools formulate the Administrative System for Hazardous Goods to clarify rules of use and disposal of wasted lab instrument and reagent, pursuant to which, such waste will be classified, recycled and disposed of by qualified agencies. Non-hazardous wastes such as wastepaper and carton are classified by school staff before being disposed of by city government or recycling agencies to promote the efficient use of resources.

Energy Management

The Company' schools revise the Administrative System for Energy Conservation and Consumption Reduction and the Rules for the Management and Use of Indoor Electric Appliances depending on individual circumstance, which clarify the duty of energy conservation and the management of consumption and require schools to improve the supervision mechanism of energy use, timely upgrade heating and power consuming devices to further energy utilization. Luzhou Tianli School utilizes air-energy heat pump water heaters to supply energy and heat to the entire school. Such water heaters are energy-efficient, whose annual average heat efficiency is four times than that of electric heaters, thus helping the school significantly reduce its energy consumption. Its schools also record and manage the gasoline and diesel consumption of on-campus official vehicles in accordance with the Administrative Measures for Official Vehicles, and encourages employees to commute by carpooling, bus or on foot.

Picturesque green campuses are a feature of schools operated by the Company. Therefore, its schools revise the Administrative System for Landscaping to standardize landscaping processes and maintenance requirements to create a green and environment-friendly campus for students. The garden-style campuses of each school have received several national awards. Neijiang Tianli School is recognized as a "Municipal-Grade Garden-style Unit", covering an area of approximately 160,000 square meters, including a greenery area of 81,872 square meters, accounting for over 50% of its total area.

The Company and its schools used municipal water in office and teaching, and there was no such problem as acquiring appropriate water supply. With education as its principal business, the Company does not involve the production and use of product packaging materials.

Green Office

The Company has adopted systems such as the Water and Electricity Conservation Management System and the Green Office and Frugality Convention to strengthen the daily management of energy saving and emission reduction. In 2019, it made a strong case for building a green campus, calling for saving energy, reducing consumption, tapping new revenue sources and cutting costs and received positive responses from its schools by revising administrative measures like the Plan for the Building of an Energy-saving Campus and the Campus Conservation Rules according to particular situation. Pursuant to such measures, green office plans were made, such as the energy conservation and emission reduction plan of Baoshan Tianli International School, the energy-saving campus plan of Ulanqab Tianli School and the energy conservation and emission reduction plan of Gulin Kindergarten. The concept of green office was spread to every corner of the campuses via education activities by the school heads to help teachers and students learn about the concept.

- **use electricity efficiently:** it advocates turning off unnecessary lights, using air-conditioners properly, reducing computer standby hours, walking up and down stairs to reduce the use of elevators, using sound-controlling sensors along the corridors in teaching buildings, and performing daily inspections to check the electricity consumption of classrooms and offices.

- **use water efficiently:** it encourages employees to develop a good habit of turning off water faucets whenever necessary and avoid wasting water caused by running, overflowing, dripping and leaking, and installs sensor-activated flushers in toilets to adjust water outflows of faucets.

- **use paper efficiently:** it advocates paperless office, fully taking advantage of online office systems, encourages employees to use less photocopier paper and default double-sided printing in its printers.

Green Teaching

The Company is committed to cultivating and improving the environmental awareness of the next generation. It incorporates the environmental protection concept into its “Six Establishments and One Accomplishment” curriculum system, and guides students via multiple channels and on multiple levels to participate in environmental protection activities by carrying out activities such as themed class meetings, social practical work, and monitoring green campus events.

Its schools actively incorporate environmental protection awareness into daily teaching. In November 2019, classes of Xichang Tianli School held meetings theming “on alert against danger when leaving in peace and break the habit of extravagance”, intending to educate students about water and electricity conservation and encourage them to make relevant labels carefully placed in the corners of classrooms, offices and washrooms to build a sound atmosphere of “advocating conservation and discouraging waste”.

Its schools have also held after-school practical activities to promote environmental protection awareness among students. On 18 March 2019, to explore and study the source of water, primary school students of Luzhou Tianli School visited the tap water factory at the northern suburb of Luzhou, where they learned about where tap water comes from and how it was processed, and understood the hardness in producing drinking water and the significance of water conservation.


Students of Luzhou Tianli School visiting the water factory at the northern suburb -
“An experience of environmental protection”

SCHOOL-COMMUNITY COOPERATION

Over the years, the Company, sticking to the core value of "school-community cooperation", has insisted on establishing a community comprising of families, schools and communities on the basis of school education as the main body and the world as teaching materials to achieve coordination between families and schools, cooperation between communities and schools, and harmonious education. In 2019, the Company continued to improve the quality of education driven by parents' satisfaction and work together with parents to create a new and effective education mode. Meanwhile, the Company opened interactive courses for all stakeholders in the community, enriched the education forms and expanded the traditional education scope, striving to overall improve the comprehensive quality of students.

Families and Schools Join Together

The Company continues to improve the quality of education to parents' satisfaction, constantly improves the feedback mechanism of parents' evaluation, and improves the quality of education purposefully. In 2019, the Company's annual report on education quality showed that parents' satisfaction with the teaching quality, teaching environment, accommodation service of Tianli campus enhanced steadily. According to the newly added survey on campus security issues, 93% of parents on average are pleased with the security services, above average level.

The Company continues to put effort into the daily communication and interaction mechanism between parents and schools. In 2019, each school timely collected feedback from parents and tracked the problem-handling processes via various channels, including class-based WeChat groups, weekly heart-bridge seminars, home visits, parents' committees and parent-school meetings. Through the widely collected opinions from parents together with teachers' and students' feedback, the Company aims to improve the education and school running plan, and further improve the school management and service level.

In accordance with the Administrative Measures for Complaints and Whistleblowing, parents' complaints or comments in writing or through emails or telephone or in other forms are gathered upon receipt and transferred to the complaint handling unit of the Company. Complaints are analyzed and assessed within 24 hours before subsequent handling by relevant departments. In 2019, education services provided by the Company were widely praised, and no complaint with material influence on teaching quality and services was received throughout the year.

In addition, the Company mobilizes the participation of parents and communities to jointly create a new and effective education model. Chengdu Tianli kindergarten held the parent-child games theming "happy sports and happy childhood". 83 groups of parents with their children participated in the games. In the parent-child interaction and competitive entertainment, students were trained to be active, exercise and show their own qualities. According to the needs of parents, Deyang Tianli school carried out the construction of education and counseling ability. 20 minutes of Chinese, math and English ability training would be posted through the Wechat platform for parents, to strengthen the school and parents' cooperation in the guidance curriculum model, improve parents' participation and teaching quality. Chengdu Tianli School held the opening and establishment ceremony of "home-school shared education center", proposing ideas of sharing education and education partners, and building education square, library and sports stadium in teaching campus that could be shared and linked to community.

Promoting Community Integration

The Company cultivates children's community awareness, humanistic care and comprehensive quality based on social practice. By promoting the innovative practice of "school-community cooperation", the Company carries out community education courses with unique characteristics, expands students' learning space, and stimulating and cultivating the feelings of community residents and parents.

In 2019, all schools under the Company planned to carry out various theme social practice. Chengdu Tianli school offered social practice courses of environmental protection and public welfare where students acted as "environmental protection guards" to join waste classification and street cleaning. Ulanqab Tianli School educated students on the monument to the people's heroes, the youth experimental base and other tourist attractions to enrich the learning scene, improve the general education level of students' history and culture, and improve students' comprehensive quality. It developed all kinds of characteristic courses like Picture Book Reading for children before and after school age; I'm The Environmental Protection Guard for teenagers; Child Care Manual and Family Education for middle-aged and young residents; Diet Manual For The Elderly, Calligraphy And Painting For The Elderly, and Game For The Elderly for the aged residents, to meet the learning needs of community residents of different ages and popularize community-level education.

Build the Supply Chain of Responsibility

The Company will work together with all parties to build a campus with excellent equipment, beautiful environment and rich resources, and take the supply chain as an indispensable link in ensuring the high level of campus facilities and school running quality. In 2019, the Company continued to practice responsible procurement, implemented the requirements of integrity, environmental protection and quality in cooperation with suppliers, and took suppliers as partners to protect the their rights and interests, jointly set up the supply chain of responsibility to achieve interest sharing.

Responsible procurement: According to the Management System for Procurement and Bidding, the Company guarantees standardized bidding and considers the three procurement requirements of high quality, efficiency and honesty. It adopts the principles of fairness, openness and impartiality in bidding processes and reins in the biddings for its construction programs and materials needed in school operation. In 2019, all schools continued to improve the School Materials Procurement Management Measures based on individual condition to standardize the bidding procedures for teaching and logistic materials, and ensure the selection of prime suppliers by checking the bidding procurement plan, qualification examination and approval, inspection, bid evaluation, bid determination, bid negotiation and other links at all levels.

Inspection and evaluation: The Company conducts unified management in selecting, hiring, guiding and retaining suppliers and adopts an evaluation and rating system for suppliers in accordance with the Measures for Supplier Performance Evaluation and Management. Each supplier is rated AA, A, and B or blacklisted based on their conditions of product quality, delivery period and violations of contracts. Blacklisted suppliers are excluded from the Company's supplier database for life. For other suppliers, the Company mainly feeds back the evaluation results to suppliers from three aspects: product quality, delivery timeliness and after-sales service, to promote service rectification, helps suppliers to carry out capacity-building and deepens the partnership.

Enthusiastic in Public Welfare

While actively developing high-quality education, the Company never forgets its social citizenship at any time, and encourages itself with the spirit of benevolence and mutual assistance of “accomplish ourselves and benefit others” and has been keen on the development of public welfare for many years. Based on social practice, the Company promotes quality education, guides students to pay attention to social issues, cultivates students’ sense of social responsibility and humanistic care, and feeds back and builds communities through the strength of teachers and students. The Company regards education public welfare as its own duty. Relying on Tianli Love Heart Public Welfare Foundation, the Company actively engages in public charity, sincerely serves the vulnerable groups in society, and waters the flowers of hope with kindness.

Tianli Love Heart Public Welfare Foundation

Relying on the foundation, the Company has been engaged in educational public welfare undertakings for a long time. The Company established “Tianli Love Heart Foundation” in 2008 and officially renamed it as “Tianli Love Heart Public Welfare Foundation” in 2019. Over the past 11 years, the foundation has accumulated RMB16 million donations in elderly care, supporting children, education, poverty relief, environmental protection and humanistic care. In 2019, the Company issued the Notice on Standardized Management and Operation of Tianli Love Heart Public Welfare Foundation to further clarify the operation mode, management process, fund source, objects of donation and other specific matters. Mr. Luo Shi, chairman of the Board of the Company, serves as the chairman of the foundation, and the brand management center serves as the fund management and operation department to support the daily operation of the foundation. The fund of the foundation mainly comes from the donations of senior management and employees of the Company, as well as donations from social groups and other caring people and helps employees of the Company and social groups in need of external support. In the future, the Company will further give full play to the advantages of the foundation, gather love and help the crisis. With years of outstanding contributions to public welfare, in December 2019, the Company won the “2019 China education industry public welfare enterprise” award at the 10th China Education Forum of “seeking for novelty and ‘new driving force’ of education development” held by Xinhuanet.

concentrated donation by Tianli Love Heart Public Welfare Foundation in 2019

the Company was awarded the “2019 China education industry public welfare enterprise”

Poverty alleviation through education

Poverty alleviation through education is the fundamental policy and the most effective way of poverty alleviation. In response to the government's appeal for introspection in poverty relief, the Company helped Meigu County, a national poverty-stricken county in Liangshan Prefecture, to get rid of poverty. In 2019, the Company helped the kindergarten of Sijijue Village of Meigu County in Liangshan Prefecture and Bingyidi Primary School of Jinyang County. At the same time, the Company put up capital and made great efforts to build a hope school, which named Guobao Tianli love kindergarten in Meigu County, from the aspects of school hardware design, donation of teaching aids and toys, outdoor amusement facilities, books, desks and chairs, etc., hoping to bring children in Meigu county a school full of love and wisdom!

In addition to helping the Guobao Tianli love kindergarten, the Company will design and build 6 public welfare kindergartens in Meigu county to fund the kindergarten education of 600 poor children. In terms of poverty alleviation in Meigu county and other poverty-stricken counties, it will provide teacher training and campus culture construction guidance, conduct students exchange, donate education and teaching facilities, students' life and learning necessities, and enroll a certain proportion of poor children in Xichang Tianli high school for free every year.

The Company helped to build Guobao Tianli love kindergarten

Social Welfare

In April 2019, the Company participated in the "Good Walker" (a homonym of "man of good deed" in Chinese) public hiking activities. Among 1,000 teams and 1,000 participants, the team of the Company ranked first in total fund-raising amount and the first in individual fund-raising amount. The fund raised will be used for poverty alleviation in Liangshan Prefecture, Mengba mountain area and other places in Sichuan Province.

Engaging in public welfare campaigns is a long-term and sustained undertaking of the Company. In the future, the Company will never forget the original intention of education public welfare and rely on the advantages of the platform of our Tianli Love Heart Public Welfare Foundation to give back to the society with love and warmth and share with other parties the fruits of development.

APPENDIX I ESG DATA LIST

ESG Indicator		Unit	2019	2018
A. Environment				
A1. Emissions				
A1.2	**Greenhouse gas emissions in total and intensity**			
	Total GHG emissions	Ton (CO_2 equivalent)	13,013.7	10,497.4* (Note h)
	GHG intensity	Ton (CO_2 equivalent)/ RMB million operating revenue	14.2	16.4*
	Direct GHG emissions (scope I) (Note a), (Note 1)	Ton (CO_2 equivalent)	4,542.7	4,701.8*
	Indirect GHG emissions (scope II) (Note b), (Note 2)	Ton (CO_2 equivalent)	8,470.9	5,795.6*
A1.3	**Hazardous waste generated**			
	Total amount of hazardous wastes (Note c)	Kilogram	1,765	2,946
	Intensity of hazardous wastes	Kilogram/ RMB million operating revenue	1.9	4.6
A1.4	**Non-hazardous waste generated**			
	Total amount of non-hazardous wastes	Ton	3,219	1,464
	Intensity of non-hazardous wastes	Ton/RMB million operating revenue	3.5	2.3
	Daily life garbage	Ton	2,387.4	846.6
	Kitchen garbage (dry)	Ton	831.9	617.2
A2. Use of Resources				
A2.1	**Total energy consumption and intensity**			
	Total energy consumption (Note d), (Note 3)	Ton standard coal	4,628.4	3,950.0*
	Energy consumption intensity	Ton standard coal/ RMB million operating revenue	5.0	6.2*
	Gasoline consumption	Liter	256,003.4	106,822.6
	Diesel consumption	Liter	4,617.1	9,826.0
	Natural gas consumption	Cubic meter	1,807,912.5	2,032,289.0
	Pipeline gas consumption	Cubic meter	171,635.5	169,125.0*
	Outsourced electricity	kWh	16,111,679.4	9,558,915.0
A2.2	**Water resource consumption and intensity**			
	Water used in life and offices	Ton	1,352,844.5	1,013,912.0
	Water use intensity	Ton/RMB million operating revenue	1,474.7	1,582.9

ESG Indicator		Unit	2019	2018
B. Society				
B1. Employment				
B1.1	**Number of employees by gender, employment type, age group and geographical region**			
	Total workforce	Person	5,299	3,979
Gender	Male	Person	1,570	1,175
	Female	Person	3,729	2,804
Employee type	Teacher	Person	2,724	2,079
	Managerial employee	Person	127	111
	Staff	Person	2,448	1,789
Age	Under 30 years old	Person	1,619	1,358
	30 to 50 years old	Person	3,071	2,311
	Above 50 years old	Person	609	310
Geographical region	Sichuan Province	Person	4,000	3,681
	Mainland China (excluding Sichuan Province)	Person	1,299	296
	Overseas	Person	0	2
B2. Health and safety				
B2.1	**Number of work-related fatalities**			
	Number of work-related fatalities	Person	0	0
B3. Development and training				
B3.1	**Number of employees trained by gender and employee category** *(Note e)*			
	Total number of employees trained	Person	2,540	900
Gender	Male	Person	998	514
	Female	Person	1,542	386
Employee type	Full-time teachers	Person	1,615	–
	Managerial employee	Person	121	–
	Staffs	Person	804	–
B3.2	**Training hours completed per employee by gender and employee category** *(Note f)*			
	Average training hours	Hour	72.7	12.8
Gender	Male	Hour	93.3	20.9
	Female	Hour	64.0	9.3
Employee type *(Note g)*	Full-time teachers	Hour	102.1	–
	Managerial employee	Hour	211.8	–
	Staffs	Hour	32.6	–
B5. Supply Chain Management				
B5.1	**Number of suppliers by geographical region**			
	Number of suppliers in Sichuan Province	Supplier	338	170
	Number of suppliers in Mainland China (excluding Sichuan Province)	Supplier	77	52
B6. Product Liability				
B6.2	**Number of product and service-related complaints received**			
	Handling rate of service-related complaints	%	100	100
B7. Anti-corruption				
B7.1	**Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period**			
	Number of proposed or concluded corruption litigation cases	Case	0	0

ESG Indicator		Unit	2019	2018
B8. Community investment				
B8.2	**Resources contributed to the focus area**			
	Contribution of fund	Ten thousand	640	–
	Value of items donated	Ten thousand	22	–

Notes:

a) GHG in Scope I of indicator A1.2 includes direct emissions generated by gasoline, diesel, natural gas and pipeline gas;

b) GHG in Scope II of indicator A1.2 includes indirect emissions generated by outsourced electricity;

c) Total amount of hazardous wastes of indicator A1.3 includes sum of waste generated from labs, light tubes, batteries and ink cartridges;

d) Total energy consumption of indicator A2.1 includes the sum of consumptions of gasoline, diesel, natural gas and pipeline gas;

e) The number of employees trained for indicator B3.1 includes employees from the headquarters of the Group and management personnel, teachers, staff and others from campus;

f) In terms of training hours completed per employee for indicator B3.2, the statistics for 2019 range from training sessions to activities that uniformly organized by the headquarters of the Group or autonomously organized by school; the statistics for 2018 includes trainings uniformly conducted for employees in the Company, excluding the training sessions and activities that autonomously organized by schools;

g) In 2019, the Group counted the number of employees trained and training hours completed per employee for indicator B3.1 and B3.2 according to the senior management, full-time teachers and staffs so as to make more accurate computation for the number of employees trained and training hours completed per employee;

h) Mark "*" represents the revised statistics for 2018: the Group further clear the energy category that the school used by revising Pipeline gas consumption use and related greenhouse gas emission in total and intensity, energy consumption, energy consumption density and other data for 2018.

Notes on data computing standard:

1) The calculation of direct GHG emissions generated by gasoline, diesel, natural gas and pipeline gas is made with reference to the Provincial Greenhouse Gas Inventory Guidelines (《省級溫室氣體清單編制指南》) issued by Climate Change Division of the National Development and Reform Commission;

2) The calculation of indirect GHG emissions generated by outsourced electricity power is made with reference to the Provincial Greenhouse Gas Inventory Guidelines (《省級溫室氣體清單編制指南》) issued by Climate Change Division of the National Development and Reform Commission, of which the power emission factor in mainland China is made with reference to the standard on Average CO_2 Emission Factors for Regional Power Grids in China for 2011 and 2012 (2011年和2012年中國區域電網平均二氧化碳排放因子);

3) The conversion of standard coal for the total energy consumption is made with reference to the GB/T 2589-2008 General Principles for Calculation of the Comprehensive Energy Consumption (《GB/T 2589-2008 綜合能耗計算通則》).

APPENDIX II ESG KPI INDEX

ESG KPI	Guide Requirements		Reporting Chapter/Statement
A1: Emissions	General disclosure		Sustainable Development – Protecting the Environment
	A1.1	The types of emissions and respective emissions data.	Not applicable. Pollutant emission is not material to the Company' s operation.
	A1.2	Greenhouse gas emissions in total and intensity.	Sustainable development – Protecting the Environment Appendix I ESG Data List
	A1.3	Total hazardous waste produced and, where appropriate, intensity.	Sustainable development – Protecting the Environment There is no unified calculation of the total amount of hazardous wastes and intensity for the time being. Going forward, we will improve the counting method of hazardous wastes gradually.
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Sustainable development – Protecting the Environment Appendix I ESG Data List
	A1.5	Description of measures to mitigate emissions and results achieved.	Sustainable Development – Protecting the Environment
	A1.6	Description of how hazardous and non-Hazardous wastes are handled, reduction initiatives and results achieved.	Sustainable Development – Protecting the Environment
A2: Use of resources	General Disclosure		Sustainable Development – Protecting the Environment
	A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Sustainable Development – Protecting the Environment Appendix I ESG Data List
	A2.2	Water consumption in total and intensity.	Sustainable Development – Protecting the Environment Appendix I ESG Data List
	A2.3	Description of energy use efficiency initiatives and results achieved.	Sustainable Development – Protecting the Environment
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Sustainable Development – Protecting the Environment This is no such issue in sourcing water that is fit for purpose during the Company's operation.
	A2.5	Total packaging material used for finished products and with reference to per unit produced.	Not applicable. The Company does not produce actual finished products during its operation.

ESG KPI	Guide Requirements	Reporting Chapter/Statement
A3: Environment and natural resources	General Disclosure	Sustainable Development – Protecting the Environment
	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Sustainable Development – Protecting the Environment
B1: Employment	General Disclosure	Teachers Happiness – Open Development Road
	B1.1 Total workforce by gender, employment type, age group and geographical region.	Teachers Happiness – Open Development Road
	B1.2 Employee turnover rate by gender, age group and geographical region.	Teachers Happiness – Open Development Road
B2: Health and safety	General Disclosure	Teachers Happiness – Open Development Road Student-oriented – Ensuring Campus Safety
	B2.1 Number and rate of work-related fatalities.	Teachers Happiness – Open Development Road Appendix I ESG Data List
	B2.2 Lost days due to work injury.	/
	B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Teachers Happiness – Open Development Road Student-oriented – Ensuring Campus Safety
B3: Development and training	General Disclosure	Teachers Happiness – Bringing Up Teachers with Virtue and Talent
	B3.1 Percentage of employees trained by gender and employee type.	Teachers Happiness – Bringing Up Teachers with Virtue and Talent
	B3.2 Average training hours completed per employee by gender and employee type.	Teachers Happiness – Bringing Up Teachers with Virtue and Talent
B4: Labor standards	General Disclosure	Teachers Happiness – Open Development Road
	B4.1 Description of measures to review employment practices to prevent child and forced labor.	Teachers Happiness – Open Development Road
	B4.2 Description of steps taken to eliminate such practices when discovered.	Teachers Happiness – Open Development Road
B5: Supply chain management	General Disclosure	School-Community Cooperation – Build the Supply Chain of Responsibility
	B5.1 Number of suppliers by geographical region.	School-Community Cooperation – Build the Supply Chain of Responsibility
	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	School-Community Cooperation – Build the Supply Chain of Responsibility

ESG KPI	Guide Requirements		Reporting Chapter/Statement
B6: Product Liability	General Disclosure		Student-oriented
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable. The Company does not involve product quality assurances and recalls during its operation.
	B6.2	Number of products and service-related complaints received and how they are dealt with.	School-Community Cooperation – Families and Schools Join Together
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Sustainable Development – Ensuring Operation Compliance
	B6.4	Description of quality assurance process and recall procedures.	Not applicable. The Company does not involve product quality assurances and recalls during its operation.
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Sustainable Development – Ensuring Operation Compliance
B7: Anti-corruption.	General Disclosure		Sustainable Development – Ensuring Operation Compliance
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Sustainable Development – Ensuring Operation Compliance
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Sustainable Development – Ensuring Operation Compliance
B8: Community investment	General Disclosure		School-Community Cooperation – Promoting Community Integration School-Community Cooperation – Enthusiastic in Public Welfare
	B8.1	Focus areas of contribution.	School-Community Cooperation – Enthusiastic in Public Welfare
	B8.2	Resources contributed to the focus area.	School-Community Cooperation – Enthusiastic in Public Welfare

Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Tianli Education International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Tianli Education International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 175, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

EY 安永

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Preferential tax treatment	
As set out in Note 10 to the financial statements, according to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools for which the school sponsors do not require reasonable return are eligible to enjoy preferential tax treatments as public schools. The preferential tax treatment polices applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. No corporate income tax was provided on the income from the provision of formal education services by the Group's private schools in the People's Republic of China (the "PRC Private Schools"). In accordance with the historical tax returns filed to the relevant tax authorities and where appropriate, the tax compliance confirmations obtained therefrom, there were no corporate income tax imposed on the PRC Private Schools in respect of the formal education services provided since their establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the year. There were significant judgements involved in management's analysis and assessment, such as an assessment on the possible outcome of the tax provision based on historical experiences and interpretation of the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by the PRC Private Schools in respect of the income from the provision of formal education services. The Group's disclosures about the income tax treatment are included in Note 3 and Note 10 to the financial statements.	The audit procedures included the following: • Discussed with management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the schools operated by the Group for the current year; • Evaluated management's assessment on the application of preferential tax or applicable tax rate to the respective schools; • Discussed with the Group's external PRC legal advisors to understand their view with respect to the interpretation of the existing applicable laws which would have impact on the applicable tax on the respective schools; • Assessed any new policies, regulations or rules that have been introduced by the authorities, which might have an impact on the tax position taken by the Group up to the date of this report; • Examined the historical tax filing returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, where appropriate; and • Involved our internal tax specialist to assist us in assessing the uncertainties arising from the preferential tax treatment enjoyed by the schools.

EY 安永

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

EY 安永

Auditor’s responsibilities for the audit of the consolidated financial statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong

20 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

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

Consolidated Statement Of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,999,396**	1,898,602
Right-of-use assets	14(b)	**743,153**	–
Prepaid land lease payments	14(a)	**–**	217,207
Goodwill	15	**7,572**	7,572
Intangible assets		**2,645**	460
Investment in an associate	16	**6,621**	5,107
Prepayments, deposits and other receivables	19	**253,784**	365,524
Total non-current assets		**4,013,171**	2,494,472
CURRENT ASSETS			
Inventories	17	**3,542**	3,982
Trade receivables	18	**1,106**	1,037
Prepayments, deposits and other receivables	19	**69,363**	42,943
Amounts due from related parties	32	**202**	4,557
Financial assets at fair value through profit or loss	21	**4,200**	15,799
Cash and cash equivalents	20	**631,429**	1,232,997
Total current assets		**709,842**	1,301,315
CURRENT LIABILITIES			
Trade payables	22	**22,318**	13,212
Other payables and accruals	23	**254,476**	165,800
Contract liabilities	24	**537,573**	340,875
Interest-bearing bank loans	26	**184,000**	87,851
Amounts due to a related party	32	**217,596**	300,577
Tax payable		**2,846**	2,490
Lease liabilities	14(c)	**5,669**	–
Deferred income	25	**152,737**	109,112
Total current liabilities		**1,377,215**	1,019,917
NET CURRENT (LIABILITIES)/ASSETS	2.1	**(667,373)**	281,398
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,345,798**	2,775,870

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Contract liabilities	24	**50,424**	52,449
Lease liabilities	14(c)	**88,325**	–
Deferred income	25	**450,642**	60,682
Interest-bearing bank loans	26	**275,000**	370,777
Total non-current liabilities		**864,391**	483,908
Net assets		**2,481,407**	2,291,962
EQUITY			
Equity attributable to owners of the Company			
Issued capital	27	**176,375**	176,375
Reserves	28	**2,262,608**	2,082,163
		2,438,983	2,258,538
Non-controlling interests		**42,424**	33,424
Total equity		**2,481,407**	2,291,962

Luo Shi
Director

Wang Rui
Director

Consolidated Statement Of Changes In Equity

Year Ended 31 December 2019

	Attributable to owners of the Company								
	Issued capital RMB'000 (note 27)	**Share premium** RMB'000 (note 28)	**Capital reserve** RMB'000 (note 28)	**Difference arising from acquisition of non-controlling interests** RMB'000	**Statutory surplus reserves** RMB'000 (note 28)	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
As at 1 January 2018	–	–	563,558	(824)	51,989	197,617	812,340	24,278	836,618
Profit and total comprehensive income for the year	–	–	–	–	–	194,733	194,733	6,446	201,179
Transfer from retained profits	–	–	–	–	22,182	(22,182)	–	–	–
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	2,700	2,700
Issue of new shares	323	–	–	–	–	–	323	–	323
Issue of new shares for the initial public offering ("IPO")	42,500	1,088,000	–	–	–	–	1,130,500	–	1,130,500
Capitalisation issue of shares	127,177	(127,177)	–	–	–	–	–	–	–
Exercise of the over-allotment option	6,375	165,980	–	–	–	–	172,355	–	172,355
Share issue expenses	–	(51,713)	–	–	–	–	(51,713)	–	(51,713)
As at 31 December 2018	176,375	1,075,090	563,558	(824)	74,171	370,168	2,258,538	33,424	2,291,962

	Attributable to owners of the Company										
	Issued capital RMB'000 (note 27)	Share premium RMB'000 (note 28)	Shares repurchased for share award scheme RMB'000 (note 29)	Capital reserve RMB'000 (note 28)	Difference arising from acquisition of non-controlling interests RMB'000	Statutory surplus reserves RMB'000 (note 28)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2019	176,375	1,075,090*	–	563,558*	(824)*	74,171*	–	370,168*	2,258,538	33,424	2,291,962
Profit for the year	–	–	–	–	–	–	–	264,946	264,946	4,514	269,460
Other comprehensive income for the year:											
Exchange differences related to translation of a foreign operation	–	–	–	–	–	–	151	–	151	–	151
Total comprehensive income for the year	–	–	–	–	–	–	151	264,946	265,097	4,514	269,611
Transfer from retained profits	–	–	–	–	–	26,854	–	(26,854)	–	–	–
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(502)	(502)
Final 2018 dividend declared	–	(59,313)	–	–	–	–	–	–	(59,313)	–	(59,313)
Gain on deemed acquisition of a non-controlling interest	–	–	–	–	17,150	–	–	–	17,150	(17,150)	–
Shares repurchased for share award scheme	–	–	(54,847)	–	–	–	–	–	(54,847)	–	(54,847)
Shares awarded under the share award scheme	–	–	12,358	–	–	–	–	–	12,358	–	12,358
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	22,138	22,138
As at 31 December 2019	176,375	1,015,777*	(42,489)	563,558*	16,326*	101,025*	151*	608,260*	2,438,983	42,424	2,481,407

* These reserve accounts comprise the reserves of RMB2,262,608,000 in the consolidated statement of financial position as at 31 December 2019 (2018: RMB2,082,163,000).

Consolidated Statement Of Cash Flows

Year Ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**276,341**	202,408
Adjustments for:			
Depreciation of property, plant and equipment	7	**71,860**	46,054
Depreciation of right-of-use assets	7	**21,109**	–
Recognition of prepaid land lease payments	7	**–**	4,710
Amortisation of intangible assets	7	**142**	29
Share of profit of an associate		**(1,514)**	(1,221)
Gains on disposal of financial assets at fair value through profit or loss	7	**(6,879)**	(2,002)
Unrealised foreign exchange loss/(gain)		**1,304**	(18,201)
Bank interest income	7	**(12,158)**	(9,886)
Deferred income released to profit or loss	25	**(149,925)**	(73,441)
Finance costs	6	**12,604**	17,606
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**61**	(4)
		212,945	166,052
Decrease/(increase) in inventories		**440**	(369)
Increase in trade receivables		**(69)**	(134)
Increase in prepayments, deposits and other receivables		**(25,339)**	(9,497)
Decrease in amounts due from related parties		**4,355**	708
Increase/(decrease) in trade payables		**9,106**	(2,979)
Increase in contract liabilities		**194,673**	96,758
Receipt of government grants	25	**465,349**	150,091
Increase in other payables and accruals		**71,536**	20,857
Cash generated from operations		**932,996**	421,487
Income tax paid		**(6,525)**	(1,638)
Net cash flows from operating activities		**926,471**	419,849

	Note	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,198,913)**	(448,508)
Purchases of intangible assets		**(3,802)**	-
Prepaid land lease payments		**(243,633)**	(424,300)
Proceeds from disposal of items of property, plant and equipment		**425**	303
Purchase of financial assets at fair value through profit or loss		**(1,761,493)**	(605,680)
Proceeds from disposal of financial assets at fair value through profit or loss		**1,779,971**	606,123
Decrease in pledged deposits		**-**	27,855
Receipt of government grants related to assets		**-**	119,355
Decrease/(increase) in time deposits with original maturity of over three months		**345,286**	(525,720)
Bank interest received		**16,075**	5,583
Net cash flows used in investing activities		**(1,066,084)**	(1,244,989)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares for the IPO		**-**	1,130,500
Proceeds from exercise of the over-allotment option		**-**	172,355
Share issue expenses		**-**	(49,365)
Repurchase of shares held for share award scheme		**(54,847)**	-
Proceeds from shares awarded under the share award scheme		**11,966**	-
Capital contribution from the non-controlling shareholders		**21,138**	2,700
Proceeds from bank loans		**152,000**	411,567
Repayment of bank loans		**(151,628)**	(415,239)
Dividends paid		**(59,313)**	-
Dividends paid to non-controlling shareholders		**(502)**	-
Principal portion of lease payments		**(2,720)**	-
Interest portion of the lease liability		**(1,298)**	-
Interest paid		**(30,312)**	(33,640)
Net cash flows from/(used in) financing activities		**(115,516)**	1,218,878
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(255,129)**	393,738
Effect of foreign exchange rate changes, net		**(1,153)**	-
Cash and cash equivalents at beginning of year		**707,277**	313,539
CASH AND CASH EQUIVALENTS AT END OF YEAR		**450,995**	707,277
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	20	**631,429**	1,232,997
Time deposits with original maturity of over three months		**(180,434)**	(525,720)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**450,995**	707,277

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

During the year ended 31 December 2019, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the provision of education and related management services in the People's Republic of China (the "PRC"). There were no significant changes in the nature of the Group's principal activities during the year.

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

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company/school name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tianli Education Holdings Limited 天立教育控股有限公司	BVI 20 February 2017	–	100	–	Investment holding
Tianli Education (HK) Limited 天立教育（香港）有限公司	Hong Kong 6 March 2017	US$1	–	100	Investment holding
Tibet Yongsi Technology Co., Ltd. ("Tibet Yongsi")[(c)] 西藏永思科技有限公司	The PRC/ Mainland China 4 September 2017	US$500,000	–	100	Provision of management service
Shenzhou Tianli Education Investment Company Limited[(a)] 神州天立教育投資有限責任公司	The PRC/ Mainland China 19 April 2013	RMB158,776,000	–	100	Investment holding and provision of management service
Luzhou Tianli School[(a)] 瀘州市天立學校	The PRC/ Mainland China 15 January 2002	RMB50 million	–	83.34	Provision of middle school education service

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Company/school name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Luzhou Longmatan Tianli Elementary School ("Luzhou Longmatan Tianli School")[a] 瀘州市龍馬潭區天立小學	The PRC/ Mainland China 25 October 2009	RMB6 million	–	83.34	Provision of primary school education service
Yibin Cuiping District Tianli School ("Yibin Tianli School")[a] 宜賓市翠屏區天立學校	The PRC/ Mainland China 26 September 2012	RMB50 million	–	100	Provision of education service
Guangyuan Tianli International School ("Guangyuan Tianli School")[a] 廣元天立國際學校	The PRC/ Mainland China 16 October 2014	RMB50 million	–	100	Provision of education service
Neijiang Shizhong District Tianli School[a] 內江市市中區天立學校	The PRC/ Mainland China 24 October 2014	RMB50 million	–	100	Provision of education service
Liangshan Xichang Tianli School ("Xichang Tianli School")[a] 涼山州西昌天立學校	The PRC/ Mainland China 11 March 2016	RMB50 million	–	100	Provision of education service
Ya'an Tianli School[a] 雅安天立學校	The PRC/ Mainland China 19 April 2017	RMB50 million	–	100	Provision of education service
Cangxi Tianli School[a] 蒼溪天立學校	The PRC/ Mainland China 29 December 2017	RMB5 million	–	100	Provision of education service
Deyang Tianli (International) School[a] 德陽天立學校	The PRC/ Mainland China 15 May 2018	RMB50 million	–	100	Provision of education service
Ziyang Yanjiang District Tianli School[a] 資陽市雁江區天立學校	The PRC/ Mainland China 3 April 2018	RMB50 million	–	100	Provision of education service
Chengdu Wuhou Kinderworld International Kindergarten ("Kinderworld Kindergarten")[a] 成都市武侯區凱星幼兒園	The PRC/ Mainland China January 2014	RMB100,000	–	100	Provision of kindergarten service

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Company/school name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Baoshan Shenzhou Tianli Senior High School Company Limited [(a),(b)] 保山市神州天立高級中學有限責任公司	The PRC/ Mainland China 23 April 2019	RMB5 million	–	100	Provision of high school education service
Baoshan Tianli School[(a)] 保山市天立學校	The PRC/ Mainland China 23 April 2019	RMB1 million	–	100	Provision of education service
Dazhou Tianli School[(a)] 達州市天立學校	The PRC/ Mainland China June 2019	RMB10 million	–	100	Provision of education service
Weifang Tianli School[(a)] 濰坊天立學校	The PRC/ Mainland China 10 June 2019	RMB300,000	–	100	Provision of education service
Yiliang Tianli School[(a)] 彝良縣天立學校	The PRC/ Mainland China 19 March 2019	RMB1 million	–	100	Provision of education service
Chengdu Longquanyi District Tianli Elementary School[(a)] 成都市龍泉驛區天立小學校	The PRC/ Mainland China April 2019	RMB2 million	–	85	Provision of primary school education service
Chengdu Longquanyi District Tianli Kindergarten Company Limited[(a),(b)] 成都市龍泉驛區天立幼兒園有限公司	The PRC/ Mainland China April 2019	RMB1 million	–	85	Provision of kindergarten service
Ulanqab Jining District Tianli School ("Ulanqab Tianli School")[(a)] 烏蘭察布市集寧區天立學校	The PRC/ Mainland China 30 May 2019	RMB500,000	–	100	Provision of education service
Zhaotong Shenzhou Tianli Senior High School Company Limited[(a),(b)] 昭通市神州天立高級中學有限公司	The PRC/ Mainland China 2 July 2019	RMB100,000	–	100	Provision of high school education service
Zhoukou Tianli School[(a)] 周口天立學校	The PRC/ Mainland China 6 November 2019	RMB100,000	–	100	Provision of education service

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Company/school name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zunyi Xinpu New District Tianli Senior[a] 遵義市新蒲新區天立學校	The PRC/ Mainland China 1 August 2019	RMB1 million	–	100	Provision of education service
Zunyi Shenzhou Tianli Senior High School Company Limited[a],[b] 遵義神州天立高級中學有限公司	The PRC/ Mainland China 1 August 2019	RMB1 million	–	100	Provision of high school education service
Tianli Kindergarten of Gulin County[a] 古藺縣天立幼兒園	The PRC/ Mainland China 29 August 2016	RMB6 million	–	66.5	Provision of kindergarten service

None of the subsidiaries has material non-controlling interests.

The above table lists the major entities of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The English names of certain companies or schools established in the PRC represent the best effort made by the management of the Company to directly translate the Chinese names of these companies or schools as they do not register any official English names.

(a) These entities are controlled through contractual arrangements and they are collectively referred to as "PRC Operating Entities".

(b) These subsidiaries are registered as domestic enterprises with limited liability under the PRC law.

(c) This subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.

2.1 BASIS OF PREPARATION

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

Going concern

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

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

Basis of consolidation

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the adoption of IFRS 16, the adoption of the above, new interpretation and amendments to IFRSs has had no significant financial effect on the financial position or performance of the Group. The nature and impact of IFRS 16 are described below:

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

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

New definition of a lease

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings and other premises. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the consolidated statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics

Financial impact at 1 January 2019

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Financial impact at 1 January 2019 (Continued)

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS (CONTINUED)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

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

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

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

Business combinations and goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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

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

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

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

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

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

Merger accounting for business combination under common control

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

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

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

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

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

(b) Lease liabilities

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

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

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

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

Group as a lessor – operating leases

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

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

Leases (applicable before 1 January 2019)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

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

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

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Other income

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

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

Contract liabilities

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is measured at the market value of the shares (less subscription price, if any), adjusted for the exclusion of expected dividends to be received in the vesting period, further details of which are given in note 29 to the financial statements.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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

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

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

Other employee benefits

Pension scheme

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

Housing fund

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Structured Contracts

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

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

Income tax

Significant judgement is required in interpreting the relevant tax rules and regulations so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact the tax expense in the period that such determination is made. Further details of current and deferred tax are set out in note 10 to the financial statements.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB7,572,000 (2018: RMB7,572,000). Further details are given in note 15 to the financial statements.

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

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

Leases – Estimating the incremental borrowing rate

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

4. OPERATING SEGMENT INFORMATION

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

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

Entity-wide disclosures

Geographical information

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(i) Disaggregated revenue information

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

(ii) Performance obligations

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

Goods transferred at a point in time

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

Services transferred over time

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

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

Services transferred over time (Continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

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

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

An analysis of other income and gains is as follows:

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

6. FINANCE COSTS

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

	2019 RMB'000	2018 RMB'000
Interest on bank loans	**30,284**	33,690
Less: Interest capitalised (note 13(b))	**(23,716)**	(16,084)
	6,568	17,606
Interest on lease liabilities	**6,036**	–
	12,604	17,606
Interest rate of borrowing costs capitalised (%)	**6.18-7.13**	6.18-7.13

7. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**108,728**	73,772
Cost of services provided		**432,312**	297,711
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**416,632**	259,635
Pension scheme contributions (defined contribution scheme)		**39,548**	32,748
Welfare		**44,787**	32,806
Housing fund (defined contribution scheme)		**14,665**	12,235
Less: Government grants released	25	**(149,925)**	(73,441)
Subsidies received		**(11,083)**	(5,742)
		354,624	258,241
Depreciation*	13	**71,860**	46,054
Recognition of prepaid land lease payments*	14(a)	**–**	4,710
Depreciation of right-of-use assets*	14(b)	**21,109**	–
Amortisation of intangible assets		**142**	29
Loss/(gain) on disposal of items of property, plant and equipment, net		**61**	(4)
Auditor's remuneration		**4,269**	3,770
Minimum lease payments under operating leases		**–**	3,612
Lease payments not included in the measurement of lease liabilities	14(d)	**1,099**	–
Bank interest income		**(12,158)**	(9,886)
Listing expenses		**–**	21,134
Gains on disposal of financial assets at fair value through profit or loss		**(6,879)**	(2,002)
Foreign exchange gains, net		**(4,495)**	(35,151)
Rental income		**(1,106)**	(808)

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "HKSE") (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 **RMB'000**	2018 RMB'000
Fees	**500**	500
Other emoluments:		
Salaries, allowances and benefits in kind	**2,017**	1,424
Pension scheme contributions	**107**	127
	2,124	1,551
	2,624	2,051

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 **RMB'000**	2018 RMB'000
Mr. Liu Kai Yu Kenneth	**200**	200
Mr. Yang Dong	**150**	150
Mr. Cheng Yiqun	**150**	150
	500	500

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019				
Executive directors:				
Mr. Luo Shi*	**–**	**787**	**46**	**833**
Ms. Yang Zhaotao	**–**	**592**	**32**	**624**
Mr. Wang Rui	**–**	**538**	**29**	**567**
	–	**1,917**	**107**	**2,024**
Non-executive directors:				
Mr. Tian Mu	**–**	**100**	**–**	**100**
Mr. Shen Jinzhou^	**–**	**–**	**–**	**–**
	–	**100**	**–**	**100**
2018				
Executive directors:				
Mr. Luo Shi*	–	507	30	537
Ms. Yang Zhaotao	–	438	34	472
Mr. Wang Rui	–	379	31	410
	–	1,324	95	1,419
Non-executive directors:				
Mr. Tian Mu	–	100	32	132
Mr. Shen Jinzhou	–	–	–	–
	–	100	32	132

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

* Mr. Luo Shi is also the chief executive of the Company.

^ Mr. Shen Jinzhou has resigned as a non-executive director of the Company with effect from 23 December 2019.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year, included two directors and the chief executive (2018: two directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 2 (2018: 2) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**507**	529
Pension scheme contributions	**55**	64
	562	593

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
Nil to HK$1,000,000	**2**	2

10. INCOME TAX

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

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

Pursuant to the PRC Income Tax Law and the respective regulations, except for Tibet Yongsi (see note 10(b) below), all the Group's non-school subsidiaries established in the PRC were subject to the PRC CIT at a rate of 25% during the year.

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

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

10. INCOME TAX (CONTINUED)

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

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

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

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

Notes:

(a) Gains generated by the Company mainly consisted of foreign exchange gains, which are not subject to tax pursuant to the rules and regulations of the Cayman Islands.

(b) During the year, Tibet Yongsi was entitled to a preferential PRC CIT rate of 15% as its business scope falls within the scope of encouraging education industry under "Western Development Policy".

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

10. INCOME TAX (CONTINUED)

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

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

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

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

11. DIVIDEND

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

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

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

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

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

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

	2019	2018
	RMB'000	RMB'000
Earnings		
Profit attributable to the ordinary equity holders	**264,946**	194,733

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

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

13. PROPERTY, PLANT AND EQUIPMENT

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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Notes:

(a) As at 31 December 2019, the Group was in the process of obtaining the relevant property ownership certificates for certain buildings with a net carrying amount of approximately RMB1,719,422,000 (2018: RMB1,121,984,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.

(b) Interest expenses capitalised as part of property, plant and equipment by the Group during the year ended 31 December 2019 amounted to RMB23,716,000 (2018: RMB16,084,000) (note 6).

14. LEASES

The Group as a lessee

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

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

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

(b) Right-of-use assets

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

	Buildings and other premises RMB'000	Prepaid land lease payments RMB'000	Total RMB'000
As at 1 January 2019	**56,792**	**222,168**	**278,960**
Additions	**35,184**	**331,957**	**367,141**
Government grants transferred out (note 25)	**–**	**118,161**	**118,161**
Depreciation charge	**(6,832)**	**(14,277)**	**(21,109)**
As at 31 December 2019	**85,144**	**658,009**	**743,153**

14. LEASES (CONTINUED)

The Group as a lessee (continued)

(c) Lease liabilities

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

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

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

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

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

(e) The total cash outflow for leases is disclosed in note 30(c) to the financial statements.

14. LEASES (CONTINUED)

The Group as a lessor

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

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

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

15. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost and net carrying amount	**7,572**	7,572

Impairment testing of goodwill

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

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

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

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

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

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

15. GOODWILL (CONTINUED)

Impairment testing of goodwill (Continued)

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

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

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

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

16. INVESTMENT IN AN ASSOCIATE

	2019 **RMB'000**	2018 RMB'000
Share of net assets	**6,621**	5,107

The Group's receivable balances with an associate are disclosed in note 32(b)(i) to the financial statements.

The investment in an associate represents the cost of investment of 33.5% of the school sponsor's interest in Affiliated Kindergarten of Luzhou Tianli School ("Luzhou Tianli Kindergarten"), a kindergarten established in Mainland China and is principally engaged in the provision of kindergarten service.

The following table illustrates the financial information of Luzhou Tianli Kindergarten which is accounted for using the equity method:

	2019 **RMB'000**	2018 RMB'000
Cash and cash equivalents	**1,331**	2,474
Other current assets	**503**	457
Non-current assets	**48,583**	50,270
Current liabilities	**(30,652)**	(33,956)
Non-current liabilities	**–**	(4,000)
Net assets	**19,765**	15,245
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**33.5%**	33.5%
Carrying amount of the investment	**6,621**	5,107

16. INVESTMENT IN AN ASSOCIATE (CONTINUED)

	2019 RMB'000	2018 RMB'000
Revenue	**18,872**	16,302
Interest expense	**(634)**	(929)
Income tax expense	**(1,507)**	(1,299)
Total profit and comprehensive income for the year	**4,520**	3,645

17. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**3,542**	3,982

18. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Within 3 months	**1,106**	1,037

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

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

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

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Current portion:		
Security deposits related to the construction of schools	**13,125**	17,991
Other deposits	**5,596**	1,498
Prepayments	**7,332**	7,947
Prepaid land lease payments to be amortised within one year	**–**	4,961
Interest receivable	**386**	4,303
Advances to staff	**5,300**	2,706
Advances to third parties	**1,833**	1,833
Deductible input value added tax	**33,317**	–
Other receivables	**2,474**	1,704
	69,363	42,943
Non-current portion:		
Prepayments for property, plant and equipment*	**50,643**	66,967
Security deposit (note 26(a)(i))	**–**	9,567
Prepayments for other intangible assets	**2,475**	–
Prepayments for the acquisition of land use rights	**200,666**	288,990
	253,784	365,524
Total	**323,147**	408,467

* Included in the prepayments for property, plant and equipment is a prepayment to a related party, Luzhou Nanyuan Construction Engineering Co., Ltd. ("Nanyuan Construction") amounting to RMB43,092,000 (2018: RMB59,634,000) (note 32(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. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

20. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**316,993**	438,583
Time deposits with original maturity of:		
– less than three months	**134,002**	268,694
– over three months	**180,434**	525,720
Cash and cash equivalents	**631,429**	1,232,997

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

	2019 RMB'000	2018 RMB'000
RMB	**251,212**	269,357
HK$	**199,030**	823,987
US$	**181,187**	139,653
	631,429	1,232,997

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

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

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Wealth management products issued by licensed banks, at fair value	**4,200**	15,799

The above unlisted investments at 31 December 2019 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The coupon rates of the above wealth management products ranged from 3.1% to 3.5% per annum.

22. TRADE PAYABLES

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

	2019	2018
	RMB'000	RMB'000
Within 3 months	**22,077**	13,131
Over 3 months and within 6 months	**165**	81
Over 6 months	**76**	–
	22,318	13,212

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

23. OTHER PAYABLES AND ACCRUALS

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

* 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.

24. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Advances received from customers		
Tuition fees	**497,916**	367,781
Boarding fees	**31,217**	9,360
Canteen operation fees	**55,440**	14,559
Others	**3,424**	1,624
	587,997	393,324
Current portion	**537,573**	340,875
Non-current portion (note)	**50,424**	52,449
	587,997	393,324

Note: The amounts represent tuition fees received in advance from Xichang City Government as consideration to admit a certain number of students designated by Xichang City Government within 30 years since the operation of Xichang Tianli School.

Changes in contract liabilities during the year are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of year	**393,324**	296,566
Revenue recognised that was included in the contract liabilities at the beginning of the year	**(342,900)**	(242,092)
Increase due to cash received, excluding amounts recognised as revenue during the year	**537,573**	338,850
At the end of year	**587,997**	393,324

There were no contract assets at the end of the reporting period recognised in the consolidated statement of financial position.

25. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants related to expense items		
At the beginning of year	**169,794**	93,144
Government grants received	**465,349**	150,091
Government grant transferred in from prepaid land lease payments (note 14(b)) *	**118,161**	–
Released to profit or loss (note 7)	**(149,925)**	(73,441)
At the end of year	**603,379**	169,794
Current	**152,737**	109,112
Non-current	**450,642**	60,682
Total	**603,379**	169,794

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

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

26. INTEREST-BEARING BANK LOANS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**4.785**	**2020**	**100,000**	–	–	–
Current portion of long term bank loans – secured	**6.175-7.125**	**2020**	**84,000**	4.75-7.125	2019	87,851
			184,000			87,851
Non-current						
Bank loans – secured	**6.175-7.125**	**2021-2023**	**275,000**	4.75-7.125	2020-2023	370,777
			459,000			458,628

26. INTEREST-BEARING BANK LOANS (CONTINUED)

	2019 RMB'000	2018 RMB'000
Bank loans repayable:		
Within one year	**184,000**	87,851
In the second year	**164,000**	91,623
In the third to fifth years, inclusive	**111,000**	279,154
	459,000	458,628

Notes:

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

The Group's bank loans are secured by:

(a) Mortgages over the following assets:

The Group's assets:

(i) the Group's bank loan of approximately RMB21,628,000 as at 31 December 2018 was secured by a refundable security deposit of Yibin Tianli School amounting to RMB9,567,000 (note 19);

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

(i) the 100% equity interest in Yibin Shenzhou Tianli Education Development Limited has been pledged for a bank loan of RMB80,000,000 and RMB100,000,000 as at 31 December 2019 and 2018, respectively;

(ii) the 100% equity interest in Xichang Shenzhou Tianli Education Development Limited has been pledged for bank loans of RMB108,000,000 and RMB120,000,000 as at 31 December 2019 and 2018, respectively;

(iii) the 100% equity interest in Neijiang Shenzhou Tianli Education Development Limited has been pledged for a bank loan of RMB100,000,000 as at 31 December 2019; and

(iv) the 100% equity interest in Guangyuan Shenzhou Tianli Education Development Limited has been pledged for a bank loan of RMB80,000,000 and RMB100,000,000 as at 31 December 2019 and 2018, respectively.

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

(i) Rights over tuition fees of Luzhou Tianli School and Luzhou Longmatan Tianli School have been pledged for bank loans in aggregate of RMB91,000,000 and RMB117,000,000 as at 31 December 2019 and 2018, respectively;

(ii) Rights over boarding fees of Yibin Tianli School have been pledged for a bank loan of RMB80,000,000 and RMB100,000,000 as at 31 December 2019 and 2018, respectively;

(iii) Rights over boarding fees of Guangyuan Tianli School have been pledged for a bank loan of RMB80,000,000 and RMB100,000,000 as at 31 December 2019 and 2018, respectively; and

(iv) Rights over tuition, boarding and other fees of Xichang Tianli School have been pledged for a bank loan of RMB108,000,000 and RMB120,000,000 as at 31 December 2019 and 2018, respectively.

(d) In addition, Mr. Luo has guaranteed the Group's bank loans of RMB108,000,000 and RMB120,000,000 as at 31 December 2019 and 2018, respectively.

27. SHARE CAPITAL

Shares

	2019 **HK$'000**	2018 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.1 each	**1,000,000**	1,000,000
Issued and fully paid:		
2,075,000,000 ordinary shares of HK$0.1 each	**207,500**	207,500
Equivalent to approximately (in RMB'000)	**176,375**	176,375

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 106 and 107 of the consolidated financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contributions from the then investors or school sponsors of the PRC Operating Subsidiaries, after elimination of investments in subsidiaries.

(b) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(c) Statutory surplus reserves

Pursuant to the relevant laws in the PRC, the Company's subsidiaries and schools in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant subsidiaries and schools in the PRC. These reserves include (i) general reserve of the limited liability companies and (ii) the development fund of schools.

(i) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(ii) According to the relevant PRC laws and regulations, private schools are required to appropriate to the development fund not less than 25% of the net income of the relevant schools as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the schools or procurement or upgrade of educational equipment.

29. RESTRICTED SHARE AWARD SCHEME

The Group has adopted the 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 be 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, after which period no further award shares shall be granted or accepted, but the provisions of the Scheme shall remain in full force and effect in order to give effect to the vesting of award shares granted and accepted prior to the expiration or termination of the Scheme.

Pursuant to the Scheme, the Board may, from time to time, in its absolute discretion, decide the selected participants after taking into various factors as they deem appropriate and determine the number of award shares to be granted to each of the selected participants. The eligible participants include Directors, senior management, managerial staff, school district principals, school sector principals and school reserve senior executive of the Group.

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. The Board may act through its authorised representative and has duly authorised the chief executive officer of the Company to give instructions or notices to the Trustee on matters in connection with the operation and administration of the Scheme and the trust. The Trustee shall hold the Company's shares and the income derived therefrom in accordance with the Scheme Rules and the terms of the trust deed. The power of the Board includes and is not limited to:

(i) construe and interpret the Scheme, make factual determinations with respect to the administration of the Scheme, further define the terms used in the Scheme; and prescribe, amend and rescind rules and regulations relating to the administration of the Scheme or the award of award shares;

(ii) determine the persons who will be granted award shares, eligibility requirements, the number and grant price of the award shares, and restrictions applicable to such award shares;

(iii) make such appropriate and equitable adjustments to the terms of award shares as it deems necessary; and

(iv) amend, add to and/or delete any of the provisions of the Scheme Rules.

In determining the grant price for each selected participant, the Board shall take into consideration matters, including but not limited to, the selected participant's position, experience, years of service, performance and contribution to the Group and the market price of the Company's shares.

Pursuant to the Scheme Rules, the Board shall cause to pay the Trustee the purchase price and the related expenses from the Group's resources for the award shares and the Trustee shall apply the purchase price to purchase from the market all of the award shares to be awarded under the Scheme and shall hold such shares until they are vested with the selected participants in accordance with the Scheme Rules and the trust deed. All shares purchased as aforesaid shall only be used for allocation to the selected participants in accordance with the Scheme Rules.

The award shares and any rights and interests (including voting rights) therein may not be enjoyed, sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by the selected participants before the award shares are vested.

29. RESTRICTED SHARE AWARD SCHEME (CONTINUED)

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.

During the year ended 31 December 2019, the Group has set up a trust specifically for the management of the share award plan and through the trust, 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 15 December 2020. There is no other performance target required except 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.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB35,184,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

During the year, the Group recorded an addition to intangible assets of RMB1,000,000 and increase in non-controlling interest of RMB1,000,000 which arose from capital contribution in the form of trade mark to a subsidiary by a non-controlling shareholder (2018: Nil).

During the year, the Group had non-cash additions to reserves and prepayments, deposits and other receivables of RMB392,000, respectively, in respect of addition receivables from employees in grant of shares in the Scheme (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Interest-bearing bank loans RMB'000	Interest payables included in other payables and accruals RMB'000	Lease liabilities RMB'000	Total RMB'000
At 31 December 2018	**458,628**	**280**	**–**	**458,908**
Effect of adoption of IFRS 16	**–**	**–**	**56,792**	**56,792**
At 1 January 2019 (restated)	**458,628**	**280**	**56,792**	**515,700**
Changes from financing cash flows	**372**	**(30,312)**	**(4,018)**	**(33,958)**
New leases	**–**	**–**	**35,184**	**35,184**
Interest expense charged to profit or loss	**–**	**6,568**	**6,036**	**12,604**
Interest capitalised	**–**	**23,716**	**–**	**23,716**
At 31 December 2019	**459,000**	**252**	**93,994**	**553,246**

2018

	Interest-bearing bank loans RMB'000	Interest payables included in other payables and accruals RMB'000	Total RMB'000
At 1 January 2018	462,300	230	462,530
Changes from financing cash flows	(3,672)	(33,640)	(37,312)
Interest expense charged to profit or loss	–	17,606	17,606
Interest capitalised	–	16,084	16,084
At 31 December 2018	458,628	280	458,908

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	**1,099**
Within investing activities	**243,633**
Within financing activities	**4,018**
	248,750

31. COMMITMENTS

(a) The Group had the following capital commitments as at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted but not provided for:		
Property, plant and equipment	**1,528,845**	1,527,336

(b) Operating lease commitments as at 31 December 2018:

The Group leased certain of its buildings and other premises under operating lease arrangements. Leases for buildings and other premises were negotiated for terms ranging from 2 to 20 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

	2018 RMB'000
Within one year	6,520
In the second to fifth years, inclusive	22,091
After five years	69,939
	98,550

32. 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 year.

(a) Name and relationships of related parties

Name	Relationships
Mr. Luo	Ultimate controlling shareholder of the Company
Gulin 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
Luzhou Tianli Kindergarten	An associate of the Company

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

(b) Outstanding balances with related parties

Amounts due from related parties

	Note	2019 RMB’000	2018 RMB’000
Trade in nature			
Luzhou Tianli Kindergarten	(i)	**15**	15
Non-trade in nature			
Luzhou Tianli Property		**20**	20
Luzhou Tianli Kindergarten	(i)	**167**	4,522
		187	4,542
		202	4,557
Prepayments, deposits and other receivables			
Nanyuan Construction		**43,092**	59,634

Notes:

(i) Included in the amount due from Luzhou Tianli Kindergarten were management fees receivable for the provision of kindergarten management service provided by the Group amounting to RMB15,000 as at 31 December 2019 (2018: RMB15,000). 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.

(ii) 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, other amounts due from related parties were unsecured, interest-free and had no fixed terms of repayments.

32. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Outstanding balances with related parties (Continued)

Due to a related party

	2019 **RMB'000**	2018 RMB'000
Non-trade in nature		
Nanyuan Construction	**217,596**	300,577

Amounts due to Nanyuan Construction were unsecured, interest-free and had no fixed terms of repayments.

(c) Transactions with related parties

(1) Construction of property, plant and equipment

	2019 **RMB'000**	2018 RMB'000
Nanyuan Construction	**965,411**	579,265

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

(2) Rental of properties

	2019 **RMB'000**	2018 RMB'000
Gulin Shengzhong*	**–**	285
Tianli Real Estate	**–**	597
	–	882

The Group rented certain properties from Gulin Shengzhong and Tianli Real Estate. Rental was charged based on prices mutually agreed between the Group and its 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 year, the rental paid by the Group to Gulin Shengzhong amounted to RMB385,000.

32. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Transactions with related parties (Continued)

(3) Provision of management services

	2019 **RMB'000**	2018 RMB'000
Luzhou Tianli Kindergarten	**194**	567

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

(4) Others

During the year, certain bank loans of the Group are guaranteed by Mr. Luo. Details of these guarantees are disclosed in note 26 to the financial statements.

The related party transaction in respect of item (c)(1) above also constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(d) Compensation of key management personnel of the Group

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**2,438**	1,541
Pension scheme contributions	**109**	102
	2,547	1,643

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Debts investments at fair value through profit or loss	4,200	–	4,200
Trade receivables	–	1,106	1,106
Financial assets included in prepayments, deposits and other receivables	–	28,322	28,322
Cash and cash equivalents	–	631,429	631,429
Amounts due from related parties	–	202	202
	4,200	661,059	665,259

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amounts due to a related party	217,596
Trade payables	22,318
Lease liabilities	93,994
Interest-bearing bank loans	459,000
Financial liabilities included in other payables and accruals	246,824
	1,039,732

33. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2018

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Debts investments at fair value through profit or loss	15,799	–	15,799
Trade receivables	–	1,037	1,037
Financial assets included in prepayments, deposits and other receivables	–	39,602	39,602
Cash and cash equivalents	–	1,232,997	1,232,997
Amounts due from related parties	–	4,557	4,557
	15,799	1,278,193	1,293,992

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amounts due to a related party	300,577
Trade payables	13,212
Interest-bearing bank loans	458,628
Financial liabilities included in other payables and accruals	162,809
	935,226

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair value	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets at fair value through profit or loss	**4,200**	15,799	**4,200**	15,799
Long-term interest-bearing bank loans	**275,000**	370,777	**275,000**	370,777
	279,200	386,576	**279,200**	386,576

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 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 changes in the Group's own non-performance risk for interest-bearing bank loans as at 31 December 2019 were assessed to be insignificant.

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

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets measured at fair value:

	Fair value measurement using Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss				
31 December 2019	**–**	**4,200**	**–**	**4,200**
31 December 2018	–	15,799	–	15,799

Fair value hierarchy

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

Liabilities for which fair values are disclosed:

	Fair value measurement using Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000	Total RMB'000
Interest-bearing bank loans, non-current portion				
31 December 2019	**–**	**–**	**275,000**	**275,000**
31 December 2018	–	–	370,777	370,777

During the year ended 31 December 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

The Company did not have any financial liabilities measured at fair value as at 31 December 2019 (2018: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other payables and accruals, interest-bearing bank loans, trade payables, amounts due from/to related parties and cash and cash equivalents which arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks which are summarised below.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's bank deposits, and interest-bearing bank loans. The interest rates and terms of repayment of interest-bearing bank loans are disclosed in note 26 to the financial statements. The Group does not have any significant exposure to the risk of changes in market interest rate as the Group does not have any bank loans which are subject to floating interest rate.

Foreign currency risk

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

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

2019

	Increase/ (decrease) in US$/HK$ rate %	**Increase/ (decrease) in profit after tax RMB'000**
If the RMB weakens against the US$	**(0.5)**	**814**
If the RMB strengthens against the US$	**0.5**	**(814)**
If the RMB weakens against the HK$	**(0.5)**	**884**
If the RMB strengthens against the HK$	**0.5**	**(884)**

2018

	Increase/ (decrease) in US$/HK$ rate %	Increase/ (decrease) in profit after tax RMB'000
If the RMB weakens against the US$	(0.5)	698
If the RMB strengthens against the US$	0.5	(698)
If the RMB weakens against the HK$	(0.5)	3,448
If the RMB strengthens against the HK$	0.5	(3,448)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligation. The Group has no concentration of credit risk from third party debtors. The carrying amounts of cash and cash equivalents, amounts due from related parties, trade receivables, deposits and other receivables in the statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has established a policy to perform an assessment of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the credit risk of default occurring over the remaining life of the financial instrument. The Group classifies its other receivables into Stage 1 and Stage 2, as described below:

Stage 1 When other receivables are first recognised, the Group records an allowance based on the 12-month ECLs

Stage 2 When other receivables have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs

Management also regularly reviews the recoverability of these receivables and follows up on the disputes or amounts overdue, if any. Management is of the opinion that the risk of default by counterparties is low.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected loss allowance for these balances was not material during the reporting period.

As at 31 December 2019, the credit assessment of other receivables was performed. The Group assessed that the expected credit losses for these receivables are not material under the 12-month expected credit loss method. Thus, no loss allowance was made during the reporting period.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and lease liabilities.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on contractual undiscounted payments, was as follows:

	2019					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Interest-bearing bank loans	**–**	**8,181**	**201,591**	**300,453**	**–**	**510,225**
Lease liabilities	**–**	**927**	**5,522**	**28,248**	**134,204**	**168,901**
Financial liabilities included in other payables and accruals	**246,824**	**–**	**–**	**–**	**–**	**246,824**
Trade payables	**22,318**	**–**	**–**	**–**	**–**	**22,318**
Amounts due to a related party	**217,596**	**–**	**–**	**–**	**–**	**217,596**
	486,738	**9,108**	**207,113**	**328,701**	**134,204**	**1,165,864**

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	11,800	104,713	416,652	–	533,165
Financial liabilities included in other payables and accruals	162,809	–	–	–	–	162,809
Trade payables	13,212	–	–	–	–	13,212
Amounts due to a related party	300,577	–	–	–	–	300,577
	476,598	11,800	104,713	416,652	–	1,009,763

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The debt-to-asset ratio as at the end of the reporting period was as follows:

	31 December 2019 RMB'000	**1 January 2019 RMB'000 (note)**	31 December 2018 RMB'000
Total liabilities	**2,241,606**	**1,560,617**	1,503,825
Total assets	**4,723,013**	**3,852,579**	3,795,787
Debt-to-asset ratio	**47%**	**41%**	40%

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's total liabilities and total assets and hence the Group's gearing ratio increased from 40% to 41% on 1 January 2019 when compared with the position as at 31 December 2018.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**323**	323
CURRENT ASSETS		
Prepayments, deposits and other receivables	**392**	–
Amounts due from subsidiaries	**1,064,418**	1,131,230
Cash and cash equivalents	**134,788**	148,741
Total current assets	**1,199,598**	1,279,971
CURRENT LIABILITIES		
Amounts due to subsidiaries	**13,225**	13,225
NET CURRENT ASSETS	**1,186,373**	1,266,746
NET ASSETS	**1,186,696**	1,267,069
EQUITY		
Issued capital	**176,375**	176,375
Reserves (note)	**1,010,321**	1,090,694
Total equity	**1,186,696**	1,267,069

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Shares repurchased for the share award scheme RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2018	–	–	–	–
Profit and total comprehensive income for the year	–	–	15,604	15,604
Capitalisation issue of shares	(127,177)	–	–	(127,177)
Issue of new shares	1,088,000	–	–	1,088,000
Exercise of the over-allotment option	165,980	–	–	165,980
Share issue expenses	(51,713)	–	–	(51,713)
As at 31 December 2018 and 1 January 2019	1,075,090	–	15,604	1,090,694
Profit and total comprehensive income for the year	–	–	21,429	21,429
Shares repurchased for the share award scheme	–	(42,489)	–	(42,489)
Final 2018 dividend declared	(59,131)	–	–	(59,313)
As at 31 December 2019	1,015,777	(42,489)	37,033	1,010,321

37. EVENT AFTER THE REPORTING PERIOD

Impact of the recent COVID-19 epidemic

Up to the date of this report, management has not been aware of any cases of COVID-19 infection among the Group's staff and the outbreak did not have any significant impact on the Group's operations. The Directors currently have an appropriate response plan in place and will continue to monitor and assess the ongoing development and respond accordingly.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2020.

Definitions

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

"affiliate"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"AGM"	annual general meeting
"Articles" or "Articles of Association"	the articles of association of the Company adopted on 24 June 2018, and as amended from time to time
"Audit Committee"	a committee of the Board established by the Board for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company
"Board"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"Company"	Tianli Education International Holdings Limited (天立教育國際控股有限公司), a company incorporated in the Cayman Islands with limited liability on 24 January 2017, the Shares of which are listed on the Main Board of the Stock Exchange
"Controlling Shareholder(s)"	has the meaning given to it under the Listing Rules
"CG Code"	Corporate Governance Code and Corporate Governance Report
"COVID-19"	the respiratory illness caused by a new form of coronavirus that emerged in 2019
"Director(s)"	the director(s) of the Company
"ESG"	Environmental, Social and Governance
"Foreign Investment Law"	Foreign Investment Law of the PRC（中華人民共和國外商投資法）
"Gaokao"	the National Higher Education Entrance Examination (普通高等學校招生全國統一考試)
"Group", "we", "us" or "our"	the Company, its subsidiaries and entities under the Company's control through contractual arrangements in the PRC
"IPO"	initial public offering
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Nomination Committee"	a committee of the Board established by the Board to assist, identify, screen and recommend to the Board appropriate candidates to serve as Directors of the Company, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company

Definitions (Continued)

“PRC”	the People’s Republic of China which, for the purpose of this report, excludes the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Operating Entities”	the schools and entities which we control through the contractual arrangements
“Pre-IPO Restricted Share Award Scheme”	the pre-IPO restricted share award scheme for the award of Shares to eligible participants, adopted by the Company on 26 January 2018, the principal terms of which are set out in the section headed “Statutory and General Information – D. Restricted Share Award Scheme” in Appendix V to the Prospectus
“Private Education Amendment”	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））
“Prospectus”	the prospectus of the Company dated 28 June 2018 issued by the Company in relation to the listing of its Shares on the Main Board of the Stock Exchange
“Qualification Requirement”	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 Sino-Foreign Regulations
"Remuneration Committee"	a committee of the Board established by the Board to assist the Board to develop and administer a formal and transparent procedure for setting policy on executive Directors’ remuneration and all Directors’ and senior management’s remuneration packages
“Reporting Period”/ “Reporting Year”	the period for the year ended 31 December 2019
“Restricted Share Award Scheme”	the restricted share award scheme for the award of Shares to eligible participant, adopted by the Company on 17 December 2018, pursuant to the announcement made by the Company on 17 December 2018
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Selected Participants”	eligible persons selected by the Board or authorized administrators to be granted the share awards under the Restricted Share Award Scheme at its sole discretion
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of HKD0.1 each
“Share Option Scheme”	the share option scheme of our Company, adopted pursuant to a resolution of our Shareholders on 24 June 2018, the principal terms of which are summarized in the section headed “Statutory and General Information – E. Share Option Scheme” in Appendix V to the Prospectus

"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"/ "SEHK"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Exclusive Business Cooperation Agreement, the Exclusive Call Option Agreement, the School Sponsors' and Directors' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Rights Entrustment Agreement, the Shareholders' Powers of Attorney, the Spouse Undertakings, the Equity Pledge Agreements, and the Loan Agreement, and any subsequent amendments and supplements to such agreements, further details of which are set out in "Structured Contracts" in the Prospectus
"Tianli Education"	Shenzhou Tianli Education Investment Co., Ltd. (神州天立教育投資有限責任公司), a limited liability company established in the PRC on 19 April 2013 and our principal operating subsidiary, it was formerly known as Sichuan Shenzhou Tianli Education Investment Co., Ltd. (四川神州天立教育投資有限公司)
"Tianli Holding"	Shenzhou Tianli Holdings Group Limited (神州天立控股集團有限公司), formerly Shenzhou Tianli Investment Group Limited (神州天立投資集團有限公司), a limited liability company established in the PRC on 13 April 2006
"Trustee"	THE CORE TRUST COMPANY LIMITED (匯聚信託有限公司) (which is independent of and not connected with the Company), being appointed by the Company for the administration of the Restricted Share Award Scheme, or any additional or replacement trustee(s)