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思考乐教育
SCHOLAR
EDUCATION

SCHOLAR EDUCATION GROUP

思考樂教育集團

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1769)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

HIGHLIGHTS

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2023. These interim results have been reviewed by the Company's audit committee and the Company's auditors, PricewaterhouseCoopers.

FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 June			Percentage change
	2023 RMB'000	2022 RMB'000	Change RMB'000	
Revenue	251,323	191,428	59,895	31.3%
Operating profit/(loss)	49,656	(54,703)	104,359	190.8%
Profit/(loss) for the period attributable to equity holders	42,938	(32,027)	74,965	234.1%
<i>Non-IFRS measure:</i>				
Adjusted profit/(loss) for the period attributable to equity holders (Note)	46,511	(32,027)	78,538	245.2%
Earnings/(loss) per Share				
	RMB cents	RMB cents	RMB cents	
Basic	7.73	(5.76)	13.49	234.2%
Diluted	7.66	(5.76)	13.42	233.0%
<i>Non-IFRS measure:</i>				
Adjusted earnings/(loss) per Share (Note)				
Basic	8.37	(5.76)	14.13	245.3%
Diluted	8.29	(5.76)	14.05	244.0%

Note:

Adjusted profit/(loss) for the period attributable to equity holders

To supplement the Group's consolidated financial statements that are presented in accordance with IFRS, the Company also uses adjusted profit/(loss) attributable to equity holders as an additional financial measure. The Company presents this financial measure because it is used by the Company's management to evaluate the Group's financial performance by eliminating the impact of items that the management does not consider to be indicative of the Group's underlying performance. The management of the Company also believes that such non-IFRS measure provides Shareholders and investors of the Company with additional information in understanding and evaluating the Group's consolidated results of operations in the same manner as the management of the Company does and in comparing financial results across accounting periods and to those of the Company's peer companies. The use of such non-IFRS measure has limitations as an analytical tool, and Shareholders and investors of the Company should not consider it in isolation from, or as substitute for the analysis of, the Company's results of operations or financial condition as reported under IFRS.

The following table reconciles the Group's adjusted profit/(loss) for the periods attributable to equity holders presented to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	Unaudited		
	For the six months ended		
	30 June		Percentage
	2023	2022	Change
	RMB'000	RMB'000	
Profit/(loss) for the period attributable to equity holders	42,938	(32,027)	234.1%
Add:			
Share option benefit expenses (<i>Note 1</i>)	<u>3,573</u>	<u>—</u>	<u>N/A</u>
Adjusted profit/(loss) for the period attributable to equity holders	<u>46,511</u>	<u>(32,027)</u>	<u>245.2%</u>

Note:

- (1) Share option benefit expenses: These expenses were incurred in connection with the share options granted to the employees of the Group on 6 February 2023, which are recognised over the share options' respective vesting period starting from the grant date to the vesting date. These expenses are non-cash and are not directly relevant to the Group's operating performance.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	251,323	191,428
Cost of sales	8	<u>(147,265)</u>	<u>(126,848)</u>
Gross profit		104,058	64,580
Selling expenses	8	(5,133)	(1,566)
Administrative expenses	8	(50,420)	(34,963)
Research and development expenses	8	(8,701)	(6,792)
Other income — net	6	4,134	2,975
Other gains/(losses) — net	7	<u>5,718</u>	<u>(78,937)</u>
Operating profit/(loss)		49,656	(54,703)
Finance costs	9	<u>(2,774)</u>	<u>(3,826)</u>
Profit/(loss) before income tax		46,882	(58,529)
Income tax (expense)/credit	10	<u>(4,408)</u>	<u>25,689</u>
Profit/(loss) for the period		<u>42,474</u>	<u>(32,840)</u>
Profit/(loss) and total comprehensive income attributable to:			
— Equity holders of the Company		42,938	(32,027)
— Non-controlling interests		<u>(464)</u>	<u>(813)</u>
		<u>42,474</u>	<u>(32,840)</u>
Earnings/(loss) per share (expressed in RMB cents per share)			
— Basic	11	<u>7.73</u>	<u>(5.76)</u>
— Diluted	11	<u>7.66</u>	<u>(5.76)</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at 30 June 2023 RMB'000	Audited As at 31 December 2022 RMB'000
	<i>Notes</i>		
Assets			
Non-current assets			
Property, plant and equipment		35,486	37,678
Right-of-use assets	12	141,000	135,895
Investment properties		82,155	82,375
Intangible assets		2,768	2,454
Prepayments and other receivables		22,993	10,931
Deferred tax assets		19,686	20,264
Financial assets at fair value through profit or loss		33,965	32,695
Financial assets at amortised cost		<u>96,000</u>	<u>—</u>
Total non-current assets		<u>434,053</u>	<u>322,292</u>
Current assets			
Inventories		301	—
Prepayments and other receivables		24,689	16,566
Financial assets at fair value through profit or loss		92,267	117,295
Term deposits with original maturity over 3 months		9,047	—
Cash and cash equivalents		174,507	298,737
Restricted cash		<u>—</u>	<u>35</u>
Total current assets		<u>300,811</u>	<u>432,633</u>
Total assets		<u>734,864</u>	<u>754,925</u>
Equity			
Share capital	13	3,775	3,775
Share premium		82,698	82,698
Shares held for employee share scheme		(2,203)	—
Other reserves		36,815	32,338
Retained earnings		<u>295,529</u>	<u>252,591</u>
Capital and reserves attributable to equity holders of the Company		<u>416,614</u>	371,402
Non-controlling interests		<u>(464)</u>	<u>—</u>
Total equity		<u>416,150</u>	<u>371,402</u>

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities		<u>89,491</u>	<u>82,764</u>
Total non-current liabilities		<u>89,491</u>	<u>82,764</u>
Current liabilities			
Contract liabilities		128,851	181,524
Lease liabilities		35,417	34,169
Trade and other payables	15	61,662	83,431
Current income tax liabilities		<u>3,293</u>	<u>1,635</u>
Total current liabilities		<u>229,223</u>	<u>300,759</u>
Total liabilities		<u>318,714</u>	<u>383,523</u>
Total equity and liabilities		<u>734,864</u>	<u>754,925</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Scholar Education Group (the “Company”) was incorporated on 7 February 2018 in the Cayman Islands as an exempted company with limited liability under the laws of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the provision of private education services in the People’s Republic of China (the “PRC” or “China”).

Mr. Chen Qiyuan is the ultimate controlling shareholder of the Company.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited since 21 June 2019 (the “Listing”).

This condensed consolidated interim financial information is presented in Renminbi (RMB) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

2. BASIS OF PREPARATION OF HALF-YEAR REPORT

This condensed consolidated interim financial information for the half-year reporting six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

This condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, this condensed consolidated interim financial information is to be read in conjunction with the annual financial statements for the year ended 31 December 2022 which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), and any public announcements made by the Group during the interim reporting period.

The Group will continue to implement measures before the Structured Contracts are unwound, with an aim to further enhance its control over the PRC Operating Entities. The Company is not aware of any non-performance of the Structured Contracts or non-compliance with such aforementioned measures as at the date of this announcement. As advised by the Group’s PRC legal counsel, the structured contracts are legally enforceable and did not violate existing PRC laws and regulations for the six months ended 30 June 2023 and up to the date of this announcement. The Directors will continue to closely monitor the development of laws and regulations and will make further appropriate adjustment of its business model whenever needed to ensure compliance with the new relevant policies. Based on cashflow projections for a period of not less than 12 months after 30 June 2023, the Directors are in the opinion that the Group’s available source of funds is sufficient to fulfil its financial obligations as and when fall due in the coming twelve months from 30 June 2023. The Group therefore continues to adopt the going concern basis in preparing its interim financial information.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the financial statements of the Company for the year ended 31 December 2022 (the “2022 Financial Statements”), as described in those annual consolidated financial statements, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

- Insurance Contracts — IFRS 17
- Disclosure of Accounting Policies — Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates — Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to IAS 12

(b) New standards and interpretations not yet adopted

		Effective for annual periods beginning on or after
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to IAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to IFRS 16	Lease liability in sale and leaseback	1 January 2024
Amendments to IAS 7 and IFRS 7	Supplier finance arrangements	1 January 2024
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Certain new accounting standards and interpretations have been published that are not mandatory for the six months ended 30 June 2023 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise such unpredictability.

This condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2022 Financial Statements.

There have been no material changes in the risk management function since 31 December 2022 or in any risk management policies since 31 December 2022.

4.2 Liquidity risk

The Group manages the liquidity risk through holding of sufficient cash and bank balances. The Group further mitigates the liquidity risk by maintaining cash reserve and utilising bank financing. The Directors consider that the Group is not exposed to significant liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting year to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating, based on current rates at each reporting year).

	within one year RMB'000	One to two years RMB'000	Two to five years RMB'000	over five years RMB'000	Total RMB'000
As at 30 June 2023					
Trade payables	1,896	—	—	—	1,896
Other payables	6,752	—	—	—	6,752
Lease liabilities	<u>40,407</u>	<u>31,306</u>	<u>43,964</u>	<u>112,986</u>	<u>228,663</u>
	<u>49,055</u>	<u>31,306</u>	<u>43,964</u>	<u>112,986</u>	<u>237,311</u>
	within one year RMB'000	One to two years RMB'000	Two to five years RMB'000	over five years RMB'000	Total RMB'000
As at 31 December 2022					
Trade payables	1,281	—	—	—	1,281
Other payables	11,042	—	—	—	11,042
Lease liabilities	<u>37,138</u>	<u>29,928</u>	<u>35,393</u>	<u>100,219</u>	<u>202,678</u>
	<u>49,461</u>	<u>29,928</u>	<u>35,393</u>	<u>100,219</u>	<u>215,001</u>

4.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2023 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Financial instruments at fair value as at 30 June 2023 were as follows:

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Asset				
Wealth management products	—	—	92,267	92,267
Listed equity investments in Mainland China	3,335	—	—	3,335
Unlisted equity investments in Mainland China	<u>—</u>	<u>—</u>	<u>30,630</u>	<u>30,630</u>
	<u><u>3,335</u></u>	<u><u>—</u></u>	<u><u>122,897</u></u>	<u><u>126,232</u></u>

Financial instruments at fair value as at 31 December 2022 were as follows:

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Asset				
Wealth management products	—	—	117,295	117,295
Listed equity investments in Mainland China	2,065	—	—	2,065
Unlisted equity investments in Mainland China	<u>—</u>	<u>—</u>	<u>30,630</u>	<u>30,630</u>
	<u><u>2,065</u></u>	<u><u>—</u></u>	<u><u>147,925</u></u>	<u><u>149,990</u></u>

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine the fair value for the remaining financial instruments.

There were no changes in valuation techniques during the six months ended 30 June 2023.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the six months ended 30 June 2023.

The Group manages the valuation of level 3 instruments for financial reporting purposes. The Group manages the valuation exercise of the investments on a case by case basis. At least once every year, the Group would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

5. REVENUE AND SEGMENT INFORMATION

Operating segments are defined as components of an enterprise engaging in business activities for which separate financial information is available that is regularly evaluated by the Group's chief operating decision makers ("CODM") in deciding how to allocate resources and assess performance. The Group's CODM has been identified as the Board of Directors, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group.

The Group's principal market is in Guangdong Province of the PRC, most of the Group's revenue and operating profit are derived within Guangdong Province, and most of the Group's operations and non-current assets are located in Guangdong Province. Accordingly, no geographical segment information is presented.

As a result of evaluation by CODM, the CODM considers that the Group is operated and managed as a single operating segment of private education services for the six months ended 30 June 2023.

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Recognised over time		
— Private education services and others	<u>251,323</u>	<u>191,428</u>

The Group has a large number of customers, and no single customer is accounted for more than 10% of the Group's total revenue during the reporting period.

6. OTHER INCOME — NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Sub-lease — net (a)	354	112
Rental income from operating leases	1,467	1,456
Finance income	792	194
Government grants	<u>1,521</u>	<u>1,213</u>
	<u>4,134</u>	<u>2,975</u>

(a) The Group sub-leases a portion of its teaching centres to third parties, and pricing of sub-lease income was determined with reference to the actual rental expense with terms agreed by both parties.

7. OTHER GAINS/(LOSS) — NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Fair value gains/(losses) on financial assets at fair value through profit or loss	3,669	(80,491)
Interest on financial assests at amortised cost	630	—
Lease modification	279	4,356
Net losses on disposal of property, plant and equipment	(20)	(1,508)
Deposits losses	(226)	(510)
Compensation charges	(115)	(483)
Fair value losses on investment properties	(400)	(360)
Net foreign exchange gains	980	173
Others	921	(114)
	<u>5,718</u>	<u>(78,937)</u>

8. EXPENSES BY NATURE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Employee benefit expenses	147,712	109,545
Depreciation and amortisation	28,441	39,679
Advertising and exhibition expenses	4,247	1,327
Teaching materials	3,689	2,922
Property management expenses	3,081	3,117
Professional service fees	3,336	2,514
Office expenses	2,827	1,584
Maintenance cost	1,569	1,540
Operating expenses	1,376	—
Utilities	1,370	986
Other taxes	1,192	765
Auditor's remuneration	650	650
Rent concession related to COVID-19	—	(1,310)
Allowance for impairment	3,794	(12)
Others	8,235	6,862
	<u>211,519</u>	<u>170,169</u>

9. FINANCE COSTS

Six months ended 30 June
2023 2022
RMB'000 RMB'000

Finance expenses		
— Interest expense on borrowings	—	356
— Interest expense on leasing liabilities	<u>2,774</u>	<u>3,470</u>
	<u>2,774</u>	<u>3,826</u>

10. INCOME TAX EXPENSE/(CREDIT)

Six months ended 30 June
2023 2022
RMB'000 RMB'000

Current tax		
— Current tax on profit/(loss) for the period	3,830	(1,459)
Deferred income tax		
— Increase/(decrease) in deferred income tax	<u>578</u>	<u>(24,230)</u>
Income tax expense/(credit)	<u>4,408</u>	<u>(25,689)</u>

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share are calculated by dividing the profit/(loss) for the period by the weighted average number of ordinary shares in issue for the Period.

Six months ended 30 June
2023 2022

Earnings/(loss) attributable to equity holders of the Company (in RMB thousands)	<u>42,938</u>	<u>(32,027)</u>
Weighted average number of ordinary shares in issue (thousand shares)	555,515	555,700
Basic earnings/(loss) per share (expressed in RMB cents per share)	<u>7.73</u>	<u>(5.76)</u>

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share adjusts the figures used in the determination of basic earnings/(loss) per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Six months ended 30 June	
	2023	2022
Diluted earnings/(loss) per share (expressed in RMB cents per share)	<u>7.66</u>	<u>(5.76)</u>
<i>Weighted average number of shares used as the denominator</i>		
	Six months ended 30 June	
	2023	2022
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/(loss) per share	555,515,000	555,700,000
Adjustments for calculation of diluted earnings/(loss) per share: Share options	<u>5,349,000</u>	<u>—</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings/(loss) per share	<u>560,864,000</u>	<u>555,700,000</u>

12. RIGHT OF USE ASSETS AND LEASES

(a) Amounts recognised in the interim condensed consolidated balance sheet

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Right-of-use assets		
Land use rights	44,351	45,300
Properties	<u>96,649</u>	<u>90,595</u>
	<u>141,000</u>	<u>135,895</u>
Lease liabilities		
Current	35,417	34,169
Non-current	<u>89,491</u>	<u>82,764</u>
	<u>124,908</u>	<u>116,933</u>

(b) Amounts recognised in the interim condensed consolidated statement of comprehensive income

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Depreciation charge of right-of-use assets		
— Properties	21,292	34,006
— Land use rights	<u>949</u>	<u>1,044</u>
	<u>22,241</u>	<u>35,050</u>
Finance costs on leases	<u>2,774</u>	<u>3,470</u>

(c) Amounts recognised in the interim condensed consolidated statement of cash flows

For the six months ended 30 June 2023, the cash outflows from financing activities for leases were RMB21,504,000 (for the six months ended 30 June 2022: RMB20,510,000) and cash outflows from operating activities for short-term lease was RMB2,793,000 (for the six months ended 30 June 2022: RMB3,832,000).

(d) Rent concessions related to COVID-19

For the six months ended 30 June 2023, the rent concession related to COVID-19 was nil (for the six months ended 30 June 2022: RMB1,310,000).

13. SHARE CAPITAL

	Authorised		Issued		
	Number of ordinary shares	Nominal value	Number of ordinary shares	Nominal value	
		USD		USD	RMB
As at 1 January 2023					
and 30 June 2023					
and 1 January 2022					
and 30 June 2022	<u>1,000,000,000</u>	<u>1,000,000</u>	<u>6,860,633</u>	<u>555,700</u>	<u>3,774,897</u>

14. DIVIDENDS

The board does not recommend the payment of a interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

15. TRADE AND OTHER PAYABLES

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Current		
Trade payables (a)	1,896	1,281
Employee benefits payables	41,511	57,141
Other taxes payables	11,433	13,927
Lease payment in advance	70	40
Other payables	<u>6,752</u>	<u>11,042</u>
	<u>61,662</u>	<u>83,431</u>

- (a) Trade payables are primarily related to the purchase of books and other teaching materials for education. The credit terms of trade payables granted to the Group are usually three months.

The aging analysis of trade payables based on the invoice date was as follows:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Three months or less	1,552	1,233
Three to six months	1	—
Six months to one year	<u>343</u>	<u>48</u>
	<u>1,896</u>	<u>1,281</u>

16. SUBSEQUENT EVENTS

During the period from 1 July 2023 to 21 July 2023 (both days inclusive), the trustee of the Company's share award scheme bought a total of 2,692,000 ordinary shares of the Company from the market at a total consideration of HK\$3,381,240 (equivalent to RMB3,106,000) which are currently held for the purpose of satisfying share awards that may be granted under the share award scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

The principal business of the Group had remained profitable and the Group recorded an operating profit of RMB49.7 million for the six months ended 30 June 2023. The Group has strived to promote business transformation, and has launched non-academic literacy programmes since autumn 2021, including science literacy, Le Xue and Guo Xue (樂學國學), logic training, Miaowei international literacy (妙維國際素養) and other courses, which have shown promising results. During the six months ended 30 June 2023, the Group's revenue from literacy programmes increased to RMB232.2 million from RMB179.0 million, and its tutoring hours increased to 2,675,300 hours from 2,068,795 hours, as compared to the same period of last year. Our literacy programmes have gained a high level of recognition from students and parents as they placed more emphasis on training children's ability to take initiatives and enhancing their deep thinking skills to achieve their overall development through the integration of learning and thinking. During the six months ended 30 June 2023, the Group's total revenue had increased to RMB251.3 million, representing an increase of 31.3% as compared to the same period last year. For the six months ended 30 June 2023, the Group recorded a net profit attributable to equity holders of RMB42.9 million, as compared to a net loss attributable to equity holders of RMB32.0 million for the six months ended 30 June 2022. It was mainly attributable to (i) an increase in total tutoring hours, which in turn contributed to an increase in revenue, (ii) the Group's continued efforts in improving operation efficiency, and (iii) fair value gain on financial assets (as opposed to fair value loss recorded in the same period last year).

Future prospects and development strategies

The Group has been exploring new business opportunities. The Group entered into a brand new live commerce business and this was a new attempt by the Group to tap into the new consumption industry. Leveraging the advantages of its brand, technology and resources and the existing talent, the Group will collaborate with top e-commerce and new media partners in the industry, which is expected to create an e-commerce platform to provide high-quality and cost-effective products and contribute to the long-term development of the Group.

In addition, we will further consolidate the development of "Le Xue" (樂學), one of the Group's brands, which comprises of liberal education in respect of art, sports, painting, performance art, calligraphy, scientific literacy, Guo Xue (國學), logic training and international literacy with a view to fulfilling various needs of students and encouraging students to develop their hobbies and talents. By providing them with quality services, children can achieve a balanced development in the five aspects of "ethics, intellect, physique, aesthetics and hard-work" and enjoy a healthy and all-rounded development.

We will strive to promote a diversified development of the Group throughout all aspects in the future, and utilise our brand influence and reputation as well as the extensive management experience and industry knowledge of the management team, to actively explore new business opportunities in different fields, expand the revenue base and maximise returns for the shareholders of the Company. In

addition, we will continue to employ stringent cost control measures to maintain a sound cash flow of the Company. We will also develop technology to continuously enhance the quality of our services and operational efficiency to support the long-term development of the Group.

Financial review

1. Revenue

The Group's revenue increased by 31.3% from RMB191.4 million for the six months ended 30 June 2022 to RMB251.3 million for the six months ended 30 June 2023. This increase was primarily due to increases in the total student enrolments and tutoring hours for the six months ended 30 June 2023.

The following table sets forth the Group's revenue for the periods indicated based on the Group's internal records:

	Unaudited		Change
	Six months ended 30 June 2023	Six months ended 30 June 2022	
	RMB'000	RMB'000	
Non-academic literary programme and others	232,216	178,966	29.8%
Tutoring programme	19,107	12,462	53.3%
Total	<u>251,323</u>	<u>191,428</u>	31.3%

The following table sets forth the student enrolments and tutoring hours delivered by type of education services for the periods indicated based on the Group's internal records:

	Six months ended 30 June 2023		Six months ended 30 June 2022		Change	
	Student enrolments	Tutoring hours	Student enrolments	Tutoring hours	Student enrolments	Tutoring hours
Non-academic literary programme	107,908	2,675,300	83,646	2,068,795	29.0%	29.3%
Tutoring programme	8,622	212,300	5,671	138,704	52.0%	53.1%
Total	<u>116,530</u>	<u>2,887,600</u>	<u>89,317</u>	<u>2,207,499</u>	30.5%	30.8%

2. Cost of sales

The cost of sales of the Group increased by 16.1% from RMB126.8 million for the six months ended 30 June 2022 to RMB147.3 million for the six months ended 30 June 2023. This increase was primarily due to an increase in teacher compensation in line with the increase in revenue. The increase was partially offset by a decrease in amortisation of right-of-use assets.

3. Gross profit and gross profit margin

As a result of the foregoing, the gross profit of the Group increased by 61.1% from RMB64.6 million for the six months ended 30 June 2022 to RMB104.1 million for the six months ended 30 June 2023. The gross profit margin of the Group increased from 33.7% for the six months ended 30 June 2022 to 41.4% for the six months ended 30 June 2023.

4. Selling expenses

The selling expenses of the Group increased by 227.8% from RMB1.6 million for the six months ended 30 June 2022 to RMB5.1 million for the six months ended 30 June 2023. The increase was primarily due to the increases in advertising and exhibition expenses and in customer service personnel expenses of the livestreaming e-commerce business.

5. Administrative expenses

The administrative expenses of the Group increased by 44.2% from RMB35.0 million for the six months ended 30 June 2022 to RMB50.4 million for the six months ended 30 June 2023. This increase was mainly due to the increases in administrative personnel expenses and office expenses.

6. Research and development expenses

The research and development expenses of the Group increased by 28.1% from RMB6.8 million for the six months ended 30 June 2022 to RMB8.7 million for the six months ended 30 June 2023. The increase was primarily due to an increase in research and development personnel expenses.

7. Other income — net

The other net income of the Group increased by 39.0% from RMB3.0 million for the six months ended 30 June 2022 to RMB4.1 million for the six months ended 30 June 2023. This increase was primarily due to (i) an increase in finance income of RMB0.6 million and (ii) an increase of RMB0.3 million in government grant.

8. Other gains/(losses) — net

The Group recorded other net gains of RMB5.7 million for the six months ended 30 June 2023 as compared with the other net losses of RMB78.9 million for the six months ended 30 June 2022, primarily attributable to: (i) a decrease in fair value losses on financial assets of RMB84.2 million,

(ii) a decrease of RMB1.5 million in net losses on disposals of property, plant and equipment and
(iii) an increase in net foreign exchange gains of RMB0.8 million. The increase was partially offset by a decrease of RMB4.1 million in lease modification.

9. Finance costs

The finance costs of the Group decreased by 27.5% from RMB3.8 million for the six months ended 30 June 2022 to RMB2.8 million for the six months ended 30 June 2023, primarily due to the decreases in interest expenses on lease liabilities and borrowings.

10. Profit/(loss) before income tax

As a result of the foregoing, the Group recorded a profit before income tax of RMB46.9 million for the six months ended 30 June 2023 as compared to the loss before income tax of RMB58.5 million for the six months ended 30 June 2022.

11. Income tax (expense)/credit

The income tax expense of the Group were approximately RMB4.4 million for the six months ended 30 June 2023 as compared to the income tax credit of RMB25.7 million for six months ended 30 June 2022. The increase was primarily due to the increase in assessable profit.

12. Profit/(loss) for the period attributable to equity holders

As a result of the foregoing, the Group recorded a profit for the period attributable to equity holders of RMB42.9 million for the six months ended 30 June 2023 as compared to the loss for the period attributable to equity holders of RMB32.0 million for the six months ended 30 June 2022.

Liquidity, financial resources and capital structure

The total equity of the Group as at 30 June 2023 was RMB416.2 million (31 December 2022: RMB371.4 million). The Group generally financed its operations with internally generated cash flows. As at 30 June 2023, the Group's cash and cash equivalents decreased by 41.6% from RMB298.7 million as at 31 December 2022 to RMB174.5 million. As at 30 June 2023, the current assets of the Group amounted to RMB300.8 million (31 December 2022: RMB432.6 million), including RMB183.6 million (31 December 2022: RMB298.8 million) in bank balances and cash, RMB92.3 million (31 December 2022: RMB117.3 million) in financial assets at fair value through profit or loss, and other current assets of RMB25.0 million (31 December 2022: RMB16.6 million). The current liabilities of the Group amounted to RMB229.2 million (31 December 2022: RMB300.8 million), of which RMB128.9 million (31 December 2022: RMB181.5 million) were contract liabilities, RMB35.4 million (31 December 2022: RMB34.2 million) were lease liabilities and RMB65.0 million (31 December 2022: RMB85.1 million) were other payables and accruals. The Group did not have bank borrowings as at 30 June 2023 and 31 December 2022. The Group's gearing ratio as at 30 June 2023 was 0% (31

December 2022: 0%), based on the bank borrowings divided by the equity attributable to the shareholders. As at 30 June 2023, the Group had net current assets of RMB71.6 million (31 December 2022: RMB131.9 million).

Treasury management policy

The treasury management policy of the Group is to utilise surplus cash reserves to invest in low-risk wealth management products to generate income without interfering with the Group's business operations or capital expenditures. With the aim of controlling risks to the Group, the Group generally invests in low and medium risk and short-term (generally with maturity periods not more than one year) wealth management products, including but not limited to: (i) low-risk, principal-protected unit trusts, structured deposits and other financial instruments issued by trust companies and commercial banks based in the PRC and the United States of America; (ii) money market instruments such as certified deposits and currency funds; (iii) debt instruments such as sovereign debt, central bank-issued debts and various debt funds; and (iv) listed and unlisted securities. The chairman of the Board is mandated by the Board to make investment decisions within the pre-determined limit. Subject to the approval of the chairman of the Board, who approves all investment contracts, the treasury department of the Group is responsible for the overall execution of the Group's investment decisions. The treasury department is also responsible for tracking the underlying investments of the wealth management products held by the Group and analysing the performance of the investments of the Group. If the treasury department identifies any risk associated with the wealth management products, the Group will take immediate action to manage its risk exposure. The investments of the Group are monitored from time to time, and professional agencies will be appointed to perform review and audit of such investments if deemed necessary. The treasury department also reviews the Group's cash position, operating cash requirements and potential investment opportunities on a monthly basis, and is also responsible for preparing monthly investment plans and cash budgets. The monthly investment plans and cash budgets are approved by the vice president of treasury department of the Group, the chairman of the Board, and, if necessary, the Board, taking into account whether the proposed investment plans would have any negative impact on the Group's cash position and operating cash requirements. The personnel of the treasury department of the Group are required to strictly follow the approved monthly investment plans to execute the Group's treasury management policy.

Foreign exchange exposure

The majority of the Group's revenue and expenditures are denominated in RMB. Most of the cash and bank deposits of the Group as at 30 June 2023 were denominated in RMB and HK\$. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Material acquisitions and disposals and significant investment

There was no significant investment held, material acquisition and disposal of subsidiaries, associates and joint ventures by the Company for the six months ended 30 June 2023. The Group will endeavour to keep abreast of the changing market conditions and proactively identify investment opportunities with a view to broadening its revenue base and enhancing its future financial performance and profitability. The Directors are confident in the future growth of the Company. Save as disclosed in this announcement, none of the investments held by the Group were direct equity investments in any investee company nor individually exceeds 5% of the total assets of the Group as at 30 June 2023.

Save as disclosed in this announcement, the Group did not have any plans for significant investments as at 30 June 2023.

Contingent liabilities

As at 30 June 2023, the Group did not have material contingent liabilities, guarantees or litigations or claims of material importance, pending or threatened against any member of the Group (31 December 2022: nil).

Pledge of assets

The Group did not have any pledge of assets as at 30 June 2023 and 31 December 2022.

Employees and remuneration policies

The Group adheres to a strong belief that one of the most valuable assets of a corporation is its employees. The Group values its human resources and recognises the importance of attracting and retaining qualified staff for its continuing success.

The Group employed a total work force of 1,757 employees as at 30 June 2023 (31 December 2022: 1,350 employees). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of the individual. The Group has been constantly reviewing staff remuneration package to ensure it is competitive in the market.

Subsequent events

Save as disclosed in this announcement, there were no significant events affecting the Group after 30 June 2023.

Dividends

The Board does not recommend the payment of a interim dividend for the six months ended 30 June 2023 (For the six months ended 30 June 2022: nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Board is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

1. Compliance with the CG Code on corporate governance practices

For the six months ended 30 June 2023, the Company has complied with all applicable code provisions set out in the CG Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices.

2. Compliance with the Model Code for securities transactions by Directors

The Company has adopted the Model Code 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 the relevant employees and they have confirmed that they had complied with the Model Code for the six months ended 30 June 2023.

3. Audit committee

The Company has established an audit committee with written terms of reference in accordance with the Listing Rules and the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting, risk management and internal controls system of the Group, review the fairness of the connected transactions of the Company and to advise the Board. The audit committee comprises three independent non-executive Directors, namely, Mr. Huang Victor, Mr. Yang Xuezhi and Ms. Yim Ka Man. Mr. Huang Victor is the chairman of the audit committee.

The audit committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2023 and has met with the independent auditors, PricewaterhouseCoopers, who have reviewed the interim financial statements in accordance with International Standard on Review Engagements 2410. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with the senior management members of the Group.

4. Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries or consolidated affiliated entities purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2023.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at <http://www.skledu.com>. The interim report of the Group for the six months ended 30 June 2023 will be published on the aforesaid websites and will be despatched to the Company's shareholders in due course.

DEFINITIONS

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

“Board”	the board of Directors
“CG Code”	Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Company”	Scholar Education Group, an exempted company incorporated in the Cayman Islands with limited liability on 7 February 2018
“COVID-19”	the infectious respiratory disease caused by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) that was first identified in 2019
“Director(s)”	the director(s) of the Company
“Group”	the Company with its subsidiaries and consolidated affiliated entities
“IFRS”	International Financial Reporting Standards
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“Share(s)”	ordinary share(s) of US\$0.001 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
SCHOLAR EDUCATION GROUP
CHEN QIYUAN
Chairman and Executive Director

Hong Kong, 23 August 2023

As at the date of this announcement, the Board comprises:

Executive directors

Mr. Chen Qiyuan (*chairman*)

Mr. Qi Mingzhi (*chief executive officer*)

Ms. Li Ailing

Ms. Leng Xinlan

Independent non-executive directors

Mr. Huang Victor

Mr. Yang Xuezhi

Ms. Yim Ka Man

Non-executive director

Mr. Shen Jing Wu (*vice chairman*)

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited by the Group's auditor. Shareholders and potential investors should therefore not place undue reliance on such statements.