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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 2020

HIGHLIGHTS

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2020. These interim results except for the non-IFRS measure have been reviewed by the Company's audit committee and the Company's auditors, PricewaterhouseCoopers.

The Board has resolved to declare an interim dividend of HK\$0.06 per Share for the six months ended 30 June 2020 to the shareholders of the Company. The interim dividend is expected to be paid on or about 15 October 2020 to those shareholders on the register of members of the Company on 11 September 2020.

	For the period ended 30 June			Percentage change
	2020 RMB'000	2019 RMB'000	Change RMB'000	
Revenue	325,607	295,477	30,130	10.2%
Operating profit	66,658	51,156	15,502	30.3%
Profit for the period	46,323	33,473	12,850	38.4%
Adjusted profit for the period ^(Note)	64,280	60,179	4,101	6.8%

Earnings per Share

	RMB cents	RMB cents	RMB cents	
Basic	8.34	7.66	0.68	8.9%
Diluted	8.18	7.66	0.52	6.8%
Adjusted earnings ^(Note)				
Basic	11.57	13.77	(2.2)	(16.0)%
Diluted	11.35	13.77	(2.42)	(17.6)%

Note: To supplement the Group's consolidated financial statements that are presented in accordance with IFRS, the Company also uses adjusted net profit 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 additional information to shareholders and investors 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 analysis of, the Company's results of operations or financial condition as reported under IFRS.

The following table reconciles the Group's adjusted profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit for the period:

	Six months ended 30 June		Change
	2020	2019	
	Unaudited RMB'000	Unaudited RMB'000	
Profit for the period	46,323	33,473	38.4%
Add:			
Share option benefit expenses	13,479	—	Not applicable
Effect on the adoption of IFRS 16 — Leases	4,478	3,850	16.3%
Listing expenses	—	22,856	–100.0%
Adjusted profit for the period	64,280	60,179	6.8%

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2020	2019
	Notes	RMB'000	RMB'000
Revenue	5	325,607	295,477
Cost of sales	8	<u>(203,372)</u>	<u>(167,591)</u>
Gross profit		122,235	127,886
Selling expenses	8	(5,943)	(6,475)
Administrative expenses	8	(58,352)	(63,490)
Research and development expenses	8	(20,397)	(15,764)
Other income — net	6	15,276	2,422
Other gains — net	7	<u>13,839</u>	<u>6,577</u>
Operating profit		66,658	51,156
Finance costs	9	<u>(16,856)</u>	<u>(10,711)</u>
Profit before income tax		49,802	40,445
Income tax expense	10	<u>(3,479)</u>	<u>(6,972)</u>
Profit and total comprehensive income for the period		<u>46,323</u>	<u>33,473</u>
Profit and total comprehensive income attributable to owners of the Company		<u>46,323</u>	<u>33,473</u>
Earnings per share (expressed in RMB cents per share)			
— Basic earnings per share	11	<u>8.34</u>	<u>7.66</u>
— Diluted earnings per share	11	<u>8.18</u>	<u>7.66</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
	<i>Notes</i>		
Assets			
Non-current assets			
Property, plant and equipment		161,108	144,882
Right-of-use assets	12	567,693	525,953
Intangible assets		1,060	996
Prepayments and other receivables		36,646	38,429
Deferred tax assets		25,972	19,577
Total non-current assets		<u>792,479</u>	<u>729,837</u>
Current assets			
Prepayments and other receivables		26,160	16,828
Financial assets at fair value through profit or loss		359,771	447,621
Term deposits with original maturity over three months		55,000	35,304
Cash and cash equivalents		155,600	241,479
Total current assets		<u>596,531</u>	<u>741,232</u>
Total assets		<u><u>1,389,010</u></u>	<u><u>1,471,069</u></u>
Equity			
Share capital	13	3,775	3,775
Share premium		324,932	386,081
Other reserves		52,882	39,403
Retained earnings		170,428	124,105
Total equity		<u><u>552,017</u></u>	<u><u>553,364</u></u>
Liabilities			
Non-current liabilities			
Borrowings		21,269	23,035
Lease liabilities		401,106	359,763
Total non-current liabilities		<u>422,375</u>	<u>382,798</u>

		Unaudited As at 30 June 2020 <i>RMB'000</i>	Audited As at 31 December 2019 <i>RMB'000</i>
	<i>Notes</i>		
Current liabilities			
Contract liabilities		146,626	283,356
Lease liabilities		104,303	100,005
Trade and other payables	15	59,072	101,352
Current income tax liabilities		4,418	11,854
Borrowings		100,199	38,340
Total current liabilities		414,618	534,907
Total liabilities		836,993	917,705
Total equity and liabilities		1,389,010	1,471,069

NOTES TO THE 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 after school education services through academic preparation programme and early primary education programme (collectively the “Listing Business”) 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.

This Interim Financial Information was approved for issue by the board of directors of the Company on 19 August 2020 and has not been audited.

2. BASIS OF PREPARATION OF HALF-YEAR REPORT

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2020 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 report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019 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.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the financial statements of the Company for the year ended 31 December 2019 (the “2019 Financial Statement”), 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 had to change its accounting policies as a result of the adoption of Amendments to IFRS 16. This is disclosed in note 3(c). Most of the other amendments listed below did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future year.

- Definition of Material — amendments to IAS 1 and IAS 8
- Definition of a Business — amendments to IFRS 3
- Revised Conceptual Framework for Financial Reporting
- COVID-19-Related Rent Concessions — amendments to IFRS 16
- Interest Rate Benchmark Reform — amendments to IFRS 9, IAS 39 and IFRS 7

(b) New standards and interpretations not yet adopted

Effective for annual periods beginning on or after

IFRS 17 ‘Insurance contracts’	1 January 2021
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 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(c) Change in accounting policy

IFRS 16 (Amendment), “COVID-19-related Rent Concessions” (effective for annual periods beginning on or after 1 June 2020, early application of the amendments is permitted). The Group has early adopted Amendment to IFRS 16 from 1 January 2020. The amendment provides lessees with exemption from assessing whether COVID-19-related rent concession is a lease modification and requires lessees that apply the exemption to account for COVID-19-related rent concession as if they were not lease modifications. In applying IFRS 16 (Amendment) for the first time, the Group has applied the practical expedient and elected not to assess whether COVID-19-related rent concession is a lease modification. All of the COVID-19-related rent concessions amounted to RMB11,934,000 has been credited to the income statement within “cost of sales”.

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 2019 Financial Statements.

There have been no changes in the risk management function since 31 December 2019 or in any risk management policies since 31 December 2019.

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 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 2020					
Trade payables	2,139	—	—	—	2,139
Other payables	12,441	—	—	—	12,441
Borrowings	103,698	4,487	13,462	5,978	127,625
Lease liabilities	116,361	114,947	93,434	286,581	611,323
	<u>234,639</u>	<u>119,434</u>	<u>106,896</u>	<u>292,559</u>	<u>753,528</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 2019					
Trade payables	3,244	—	—	—	3,244
Other payables	12,559	—	—	—	12,559
Borrowings	40,479	4,530	13,588	8,302	66,899
Lease liabilities	111,684	110,190	269,115	60,853	551,842
	<u>167,966</u>	<u>114,720</u>	<u>282,703</u>	<u>69,155</u>	<u>634,544</u>

4.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2020 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 2020 were as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Financial assets at FVPL	<u>—</u>	<u>—</u>	<u>359,771</u>	<u>359,771</u>

Financial instruments at fair value as at 31 December 2019 were as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Financial assets at FVPL	<u>—</u>	<u>—</u>	<u>447,621</u>	<u>447,621</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 2020.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the six months ended 30 June 2020.

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.

The valuation of the level 3 instruments mainly included financial assets at FVPL. As these instruments are not traded in an active market, their fair values is estimated by discounting the cash flows approach with reference to the quoted price by the financial institution.

5. REVENUE, 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 consider that the Group is operated and managed as a single operating segment of after-school education services for the six months ended 30 June 2020.

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

6. OTHER INCOME — NET

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Sub-lease (a)		
— Sub-lease income	4,377	7,102
— Sub-lease expense	(4,558)	(6,013)
Finance income	3,855	415
Government grants	<u>11,602</u>	<u>918</u>
	<u><u>15,276</u></u>	<u><u>2,422</u></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 a mark-up agreed by both parties.

7. OTHER GAINS — NET

Six months ended 30 June

2020 2019

RMB'000 RMB'000

Fair value gains on financial assets at FVPL	12,816	6,064
Lease modification	1,201	—
Net losses on disposal of property, plant and equipment	(3)	(194)
Net foreign exchange (losses)/gains	(177)	1,149
Others	2	(442)
	<u>13,839</u>	<u>6,577</u>

8. EXPENSES BY NATURE

Six months ended 30 June

2020 2019

RMB'000 RMB'000

Employee benefit expenses	182,476	146,964
Depreciation and amortisation	73,210	50,005
Teaching materials	11,016	8,513
Software usage fee	11,079	—
Property management expense	6,002	4,469
Advertising and exhibition expense	3,193	4,164
Office expenses	2,718	2,021
Utilities	2,190	2,132
Professional service fees	1,517	948
Taxes	1,378	1,200
Maintenance cost	1,234	1,558
Auditor's remuneration	886	500
Entertainment expense	819	1,208
Travel and transportation	489	918
Recruitment expense	584	343
Listing expenses	—	22,856
Rent concession related to COVID-19 (<i>Note 12(d)</i>)	(11,934)	—
Others	1,207	5,521
	<u>288,064</u>	<u>253,320</u>

9. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Finance expenses		
— Interest expense on borrowings	2,437	1,285
— Interest expense on leasing liabilities	<u>14,419</u>	<u>9,426</u>
	<u>16,856</u>	<u>10,711</u>

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax		
— Current tax on profits for the period	9,874	9,595
Deferred income tax		
— Increase in deferred income tax	<u>(6,395)</u>	<u>(2,623)</u>
Income tax expense	<u>3,479</u>	<u>6,972</u>

11. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue for the Period.

	Six months ended 30 June	
	2020	2019
Earnings attributable to equity holders of the Company (in RMB thousands)	<u>46,323</u>	<u>33,473</u>
Weighted average number of ordinary shares in issue (thousand shares) (i)	555,700	436,976
Basic earnings per share (expressed in RMB cents per share)	<u>8.34</u>	<u>7.66</u>

- (i) Basic earnings per share is calculated by dividing the profit for the year attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2020 and 2019. The weighted average number of ordinary shares has been retrospectively adjusted for the effects of the share split and capitalisation issue as disclosed in Notes 13(a) and 13(c) on the assumption that the share split and capitalisation issue had been in effect on each beginning date of the earliest period reported.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings 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	
	2020	2019
Diluted earnings per share (expressed in RMB cents per share)	<u>8.18</u>	<u>7.66</u>
Weighted average number of shares used as the denominator		
	Six months ended 30 June	
	2020	2019
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	555,700,000	436,976,000
Adjustments for calculation of diluted earnings per share: Share options	<u>10,428,000</u>	<u>—</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>566,128,000</u>	<u>436,976,000</u>

12. RIGHT-OF-USE ASSETS AND LEASE

(a) Amount recognised in the consolidated balance sheet

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Right-of-use assets		
Land use rights	89,116	90,561
Properties	<u>478,577</u>	<u>435,392</u>
	<u>567,693</u>	<u>525,953</u>
Lease liabilities		
Current	104,303	100,005
Non-current	<u>401,106</u>	<u>359,763</u>
	<u>505,409</u>	<u>459,768</u>

As at 30 June 2020, the Group's land use rights with net book amounts of RMB37,021,000 (31 December 2019: RMB37,543,000) were pledged to a bank to secure certain banking borrowings of the Group.

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

	Six months ended 30 June 2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets		
— Properties	51,576	36,630
— Land use rights	<u>1,445</u>	<u>545</u>
	<u>53,021</u>	<u>37,175</u>
Finance costs on leases	<u>14,419</u>	<u>9,426</u>

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

For the six months ended 30 June 2020, the cash outflows from financing activities for leases was RMB43,409,000 and cash outflows from operating activities for short-term lease was nil.

(d) Rent concessions related to COVID-19

For the six months ended 30 June 2020, the rent concessions related to COVID-19 was RMB11,934,000 (Note 8).

13. SHARE CAPITAL

	Authorised			Issued		
	Number of ordinary shares	Nominal value		Number of ordinary shares	Nominal value	
		USD	RMB		USD	RMB
Balance at 1 January 2019	53,831	53,831	338,501	53,831	53,831	338,501
Effect of share subdivision (a)	53,777,219	—	—	53,777,219	—	—
Increase in authorised share capital (b)	946,168,950	946,169	6,522,132	—	—	—
Issue of shares pursuant to the Capitalisation (c)	—	—	—	376,968,950	376,969	2,581,181
Issue of shares pursuant to the Listing (d)	—	—	—	124,900,000	124,900	855,215
As at 30 June 2019	<u>1,000,000,000</u>	<u>1,000,000</u>	<u>6,860,633</u>	<u>555,700,000</u>	<u>555,700</u>	<u>3,774,897</u>
As at 1 January 2020 and 30 June 2020	<u>1,000,000,000</u>	<u>1,000,000</u>	<u>6,860,633</u>	<u>555,700,000</u>	<u>555,700</u>	<u>3,774,897</u>

- (a) On 3 June 2019, the Company subdivided each of its issued ordinary share of a par value of US\$1.00 into 1,000 shares of US\$0.001 each. Upon the subdivision, the authorised share capital of the Company was US\$53,831.05 divided into 53,831,050 shares of US\$0.001 each. Earnings per share amounts presented in the financial statements have been revised on a retrospective basis to reflect the effect of the share split. The par value per share and the share numbers in the other notes of the financial statements have not been retrospectively revised.
- (b) On 12 June 2019, the authorised share capital of the Company was increased from 53,831,050 shares of US\$0.001 each to 1,000,000,000 shares of US\$0.001 each, by the creation of an additional 946,168,950 shares, ranking pari passu in all respects with the existing shares.
- (c) Pursuant to the written resolution passed by the shareholders on 10 June 2019 and conditional upon the share premium account of the Company being credited as a result of the Listing, the Directors were authorised to allot and issue a total of 376,968,950 shares, credited as fully-paid, at par by way of capitalisation for the sum of RMB376,968,950 standing to the credit of the share premium account of the Company (the “Capitalisation Issue”).
- (d) On 21 June 2019, the Company issued 124,900,000 ordinary shares of US\$0.001 each at a price of HK\$3.68 per share pursuant to the initial public offering and Listing of the Company’s shares on the Main Board of the Stock Exchange.
- (e) Immediately following completion of the Capitalisation Issue and the Listing, the authorised share capital of the Company US\$1,000,000 was divided into 1,000,000,000 shares, of which 555,700,000 shares were issued fully paid or credited as fully paid, and 444,300,000 shares remained unissued.

14. DIVIDENDS

For the six months ended 30 June 2020, the Company declared and paid the final dividends and final special dividends for the year ended 31 December 2019 amounting to HK\$33,342,000 (equivalent to RMB30,574,500) and HK\$33,342,000 (equivalent to RMB30,574,500) respectively, out of its share premium.

On 19 August 2020, the Board has recommended an interim dividend of HK\$0.06 per share. This interim dividend, amounting to HK\$33,342,000 has not been recognised as liabilities in this interim financial information.

15. TRADE AND OTHER PAYABLES

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Current		
Trade payables (a)	2,139	3,244
Employee benefits payables	40,454	72,823
Other taxes payables	3,982	12,670
Interest payables	56	56
Listing related expenses payables	602	3,421
Payables for leasehold improvements	3,414	—
Other payables	8,425	9,138
	<u>59,072</u>	<u>101,352</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 2020 RMB'000	As at 31 December 2019 RMB'000
Three months or less	1,111	2,186
Three to six months	714	676
Six months to one year	314	382
	<u>2,139</u>	<u>3,244</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group is one of the top five K-12 after-school education service providers in Guangdong Province¹. Despite the effect of the COVID-19 pandemic at the beginning of the year, the entire Group worked together and responded quickly, and managed to switch all offline courses to online teaching in a short time, adopting the teaching approach of “original teacher, original student, original course, original content (原老師，原學生，原課程，原內容)”, which enabled its business to maintain a steady growth in the midst of the pandemic. During the six months ended 30 June 2020, the Group’s revenue increased by 10.2% to RMB325.6 million; the Group’s profit increased by 38.4% to RMB46.3 million; and the Group’s adjusted profit increased by 6.8% to RMB64.3 million, each as compared to the same period last year.

Business overview

The total number of the Group’s learning centres increased from 100 as at 31 December 2019 to 127 as at 30 June 2020. In June 2020, the Group also expanded its business to Guangzhou and launched the “Scholar Wangxiao” (思考樂網校) in Shantou, increasing the number of cities covered by the Group to nine (including Shenzhen, Guangzhou, Dongguan, Foshan, Huizhou, Zhongshan, Jiangmen, Shantou and Xiamen), and gradually expanded its market share and influence in the Province.

For the six months ended 30 June 2020, the Group’s tutoring hours increased to 3,893,674, representing an increase of 5.1% as compared with 3,703,607 for the same period last year. In addition, the Group’s average tuition fee per tutoring hour increased by 4.8% from RMB79.8 for the six months ended 30 June 2019 to RMB83.6 for the six months ended 30 June 2020, which gradually improved the revenue and profitability of the Group.

Future prospects and development strategies

1. Expanding the Group’s geographical coverage in the Greater Bay Area and increasing its market share

The Group will continue to enhance its strategic development layout in the Greater Bay Area. Leveraging its successful experience in Shenzhen, Dongguan, Foshan and Huizhou, the Group has replicated the management and operation mode of multi-city operations, team building system for inter-city operation and ways to improve customer satisfaction and loyalty in the above cities to the trail projects in Guangzhou, Jiangmen, Zhongshan and other new cities and the Group is pleased to report that it has achieved preliminary success. Next, the Group will expand its coverage in the Great Bay Area and the entire Guangdong Province. Meanwhile, taking Guangdong as the start point and base for its future development, the Group will replicate its success in Shenzhen, Dongguan, Foshan and Huizhou in the past and assign its experienced teams with more than 10 years’ experience to additional locations across the country.

¹ According to an industry report prepared by Frost & Sullivan in 2019

The Group upholds the educational philosophy of “focus on academic excellence to enable our students to achieve their aspirations” (博學精教，成就學生). The Group has established the innovative “366 model teaching system” to provide guidance for students to form their own knowledge chain and build their own knowledge framework. Based on the combination of studying and thinking, the Group implements dual core teaching model of “knowledge + education”, so as to cultivate students’ 24 characters in all respects, encourage them to act based on their initiatives and enhance their in-depth thinking ability. The Directors believe that the Group is highly recognised by students and parents in the Greater Bay Area with its brand influence and reputation. The Group will accelerate the expansion of its education service network, strengthen the contact and cooperation between the local schools and the Group, and hold more lectures relating to further education, so as to attract and retain more students, maintain and continue to increase its market share.

With the pandemic gradually coming under control, classes have resumed in all of the Group’s offline learning centres since June 2020. Meanwhile, seizing the immediate opportunity to consolidate the industry arising from the pandemic, all the management, school principals and teachers focused on student recruitment during the summer vacation and achieved satisfactory results. The overall student enrollments of trail courses in this summer session increased by 91.4% as compared to the same period last year, particularly those in cities other than Shenzhen significantly increased by 215.0%, generating a strong student base.

Moreover, the Group officially established high-end classes under “Hongmeng” (鴻盟), a high-end brand of Scholar Education, in May 2020, with an aim to create a high-end teaching system specifically for outstanding students. Hongmeng high-end classes are characterised by renowned teachers, some of whom are from Tsinghua University, Peking University, and the Chinese Academy of Sciences. It offers programmes covering primary school, middle school and high school, and consists of two levels of students, namely general ones and excellent ones. Leveraging three factors of students, tutors and support and four aspects of discipline construction, training certification, urban operation and operating maintenance, the project forms a training loop and is directly responsible for bringing out the excellence in students and preparing them to enter into their next level of education. Hongmeng high-end classes position the level of students with precision and cultivate them for continuous improvement.

Meanwhile, the Group will further expand its “Dual-teacher classroom” business to cities with huge market potentials and relatively less intense competition. By utilising internet interactive live broadcast technologies, the Group will combine its online live broadcast of lectures given by its renowned teachers with simultaneous offline support by its tutors to allow students in second- and third-tier cities to enjoy classes given by prominent teachers. It is expected that the operation mode and management team of the Group shall strengthen its competitive edge.

2. *Merger of online and offline education products and services (OMO)*

K-12 online education market has massive potential and development space for its strong demand. The unexpected COVID-19 pandemic at the beginning of the year also accelerated and stimulated online education, prompting more students to try and experience online education products.

The Group believes that offline education remains the most important and effective learning mode for students. The “Scholar Wangxiao” launched distinctive online classes to cater for student’s demand for online learning, which combined with offline classes to provide students with both online and offline learning environment. The Group will accelerate the promotion of education OMO, enabling students to overcome commute restrictions and time constraints, with a view to achieving a diversified learning mode. Based in Southern China, the Group believes that its online business will gradually develop into a high-quality online education platform with wide influence in China to increase its number of students enrolled and improve its overall profitability.

3. *Increasing investment in teaching and research*

The core of education is always the content, the main pillars of which are teaching and research. The Scholar Teaching Research Institute comprises more than 200 professional teaching and research personnel, who are committed to promoting the standardisation of class systems, teaching materials and teaching methods.

In May 2020, the Group entered into a strategic cooperation agreement with Oracle (China) Software Systems Co., Ltd. (“**Oracle**”), the largest information management software and service provider globally, to combine the premium education resources of the Group with the advanced IT technology and data analysis platform of Oracle. Oracle’s agile data analysis platform not only provides the Group with more instantaneous and accurate operational data, but also offers more scientific management basis, which enhances the Group’s insight and analytics on customers with continuous innovation and expands the Group’s management scope and ability, thereby enhancing the Group’s competitiveness in the education and training industry and further improving cost efficiency. In the future, by focusing on the smart education industry, the Directors expect that the Group and Oracle will carry out in-depth cooperation and deployment with respect to relevant fields such as online education, block-chain network of education and training, and cloud calculation services in the education and training industry, with a view to creating a better education model for China’s education industry.

On 8 August 2020, the Scholar SIR Intelligent Education System (思考樂SIR智能教學系統) was officially launched, which is regarded as an essential part of the Group’s strategy of informationalisation development. SIR is the acronym for “Systematic, Interactive and Reform”. The system contains functionalities that are conducive to the delivery of more efficient and interactive courses, and increasingly visualised teaching. Specifically, it can draw geometries precisely, dynamically display geometric laws and the changes of a function as well as flexibly adjust the order of class sections. It changes the instructional mode from teacher-oriented lectures in the past to discussion among teachers and students. In addition, optimisation of the 5T (namely

the teachers' rank management system, teaching quality evaluation system, teaching service, teaching result assessment system and standardised class design) teaching system currently under development by the Group shall achieve upgrading and iteration at the informationalisation level.

The Group will continue to further invest in research and development, customise and digitalise its teaching processes to provide students with a better learning experience and facilitate students to more easily grasp and understand the course materials and key points. Meanwhile, the Group will also actively communicate and cooperate with local and overseas experts in the education sector to constantly enhance the teaching practice of teachers.

4. *Employee incentive plans with “Scholar” characteristics*

Employees are the most valuable assets of the Group. The Group currently has more than 4,000 employees. During the pandemic, the employees worked together as a team to face the challenges. The team demonstrated spirit of solidarity, mutual understanding and encouragement during the difficult times, and “unity and teamwork” (團結共贏) became the Group's commonly-shared core philosophy. At the same time, the Group launched core incentive plans with “Scholar” characteristics, including a teacher partnership system, principal management fission mechanism and share option partnership system, which provided powerful incentive mechanisms to the Group's teachers, school principals and core management, laying a solid foundation for the Group's development in the next ten years.

Financial review

1. *Revenue*

The Group's revenue increased by 10.2% from RMB295.5 million for the six months ended 30 June 2019 to RMB325.6 million for the six months ended 30 June 2020. This increase was primarily due to increases in the total student enrolments and tutoring hours, which were primarily because (i) the total number of the Group's learning centres increased from 64 for the six months ended 30 June 2019 to 127 for the six months ended 30 June 2020; and (ii) an increase in the average tuition fee per tutoring hour for regular courses from RMB79.8 for the six months ended 30 June 2019 to RMB83.6 for the six months ended 30 June 2020.

The following table sets forth the revenue contributed from the Group's academic preparation and early primary education programmes for the periods indicated based on the Group's internal records:

	Six months ended 30 June 2020 Unaudited RMB'000	Six months ended 30 June 2019 Unaudited RMB'000	Change
Academic preparation programme	314,597	284,478	10.6%
Early primary education programme	11,010	10,999	0.1%
Total	<u>325,607</u>	<u>295,477</u>	10.2%

The following table sets forth the student enrolments and tutoring hours delivered under the Group's academic preparation and early primary education programmes for the periods indicated based on the Group's internal records:

	Six months ended 30 June 2020		Six months ended 30 June 2019		Change	
	Student enrolments	Tutoring hours	Student enrolments	Tutoring hours	Student enrolments	Tutoring hours
Academic preparation programme	121,117	3,756,154	113,017	3,566,119	7.2%	5.3%
Early primary education programme	2,721	137,520	2,652	137,488	2.6%	0.0%
Total	<u>123,838</u>	<u>3,893,674</u>	<u>115,669</u>	<u>3,703,607</u>	7.1%	5.1%

2. Cost of sales

The cost of sales of the Group increased by 21.4% from RMB167.6 million for the six months ended 30 June 2019 to RMB203.4 million for the six months ended 30 June 2020. This increase was primarily due to (i) an increase in teacher compensation and amortisation of right-of-use assets, primarily due to the increase of the total number of the Group's learning centres from 64 for the six months ended 30 June 2019 to 127 for the six months ended 30 June 2020 as a result of the expansion of the Group's learning centre network and growth of the Group's business; and (ii) additional expenses arising from the delivery of online classes during the pandemic.

3. *Gross profit and gross profit margin*

As a result of the foregoing, the gross profit of the Group decreased by 4.4% from RMB127.9 million for the six months ended 30 June 2019 to RMB122.2 million for the six months ended 30 June 2020. The gross profit margin of the Group decreased from 43.3% for the six months ended 30 June 2019 to 37.5% for the six months ended 30 June 2020 primarily because (i) the new learning centres opened in 2019 and 2020 were during their ramping-up period, which generated relatively limited revenue while the related costs, such as amortisation of right-of-use assets relate to such learning centers and salaries and benefits, were still fixed; and (ii) additional expenses arising from the delivery of online classes during the pandemic.

4. *Selling expenses*

The selling expenses of the Group decreased by 8.2% from RMB6.5 million for the six months ended 30 June 2019 to RMB5.9 million for the six months ended 30 June 2020. The decrease was primarily due to (i) a decrease in advertising and exhibition expenses as the Group reduced its spending on exhibition expenses due to most of the marketing activities in connection with parents seminars and talks held by the Group to promote its brand and services had been switched from offline leased venues to the Group's own online broadcasting platform during the pandemic; and (ii) a decrease in entertainment expenses relating to business activities.

5. *Administrative expenses*

The administrative expenses of the Group decreased by 8.1% from RMB63.5 million for the six months ended 30 June 2019 to RMB58.4 million for the six months ended 30 June 2020. This decrease was mainly due to the decrease of the non-recurring listing expenses of RMB22.9 million the Company incurred for the six months ended 30 June 2019 in connection with the Listing. The decrease was partially offset by an increase of RMB19.0 million in salaries and benefits for the Group's administrative personnel as a result of the expansion of the Group's learning centre network and growth of the Group's business.

6. *Research and development expenses*

The research and development expenses of the Group increased by 29.4% from RMB15.8 million for the six months ended 30 June 2019 to RMB20.4 million for the six months ended 30 June 2020. The increase was primarily due to the increase in the number of research and development personnel.

7. *Other income — net*

The other income of the Group increased by 530.7% from RMB2.4 million for the six months ended 30 June 2019 to RMB15.3 million for the six months ended 30 June 2020. This increase was primarily due to (i) an increase of RMB10.7 million in government grants primarily as a result

of the government's measures to relief the economic consequences of the COVID-19 pandemic; and (ii) an increase of RMB3.4 million in finance income. The increase was offset in part by the decrease of RMB1.3 million in net sub-lease income.

8. *Other gains — net*

The other net gains of the Group increased by 110.4% from RMB6.6 million for the six months ended 30 June 2019 to RMB13.8 million for the six months ended 30 June 2020. This increase was primarily attributable to an increase of RMB6.8 million in realised and unrealised gains on financial assets at fair value through profit or loss, as a result of the increase in return of the Group's wealth management products. The increase was partially offset by the decrease in exchange gain of RMB1.3 million as a result of depreciation of cash and bank deposits denominated in USD and HKD.

9. *Finance costs*

The finance costs of the Group increased by 57.4% from RMB10.7 million for the six months ended 30 June 2019 to RMB16.9 million for the six months ended 30 June 2020, primarily due to an increase in interest expenses on lease liabilities of RMB5.0 million and borrowings of RMB1.2 million.

10. *Profit before income tax*

As a result of the foregoing, the profit of the Group before income tax increased by 23.1% from RMB40.4 million for the six months ended 30 June 2019 to RMB49.8 million for the six months ended 30 June 2020.

11. *Income tax expenses*

The income tax expenses of the Group were approximately RMB7.0 million for the six months ended 30 June 2019 as compared to the income tax expenses of RMB3.5 million for six months ended 30 June 2020. The effective tax rate of the Group was 17.2% for the six months ended 30 June 2019 as compared to the effective tax rate of 7.0% for the six months ended 30 June 2020. The decrease in the effective tax rate was primarily due to the increase in research and development expenses, which entitles to additional deduction in tax assessment, and the recognition of deferred tax assets.

12. *Profit for the period*

As a result of the foregoing, the profit of the Group for the period increased by 38.4% from RMB33.5 million for the six months ended 30 June 2019 to RMB46.3 million for the six months ended 30 June 2020.

Liquidity, Financial Resources and Capital Structure

The total equity of the Group as at 30 June 2020 was RMB552,017,000 (31 December 2019: RMB553,364,000). The Group generally finances its operation with internally generated cash flows. The Group had bank and cash balance of RMB210,600,000 as at 30 June 2020 (31 December 2019: RMB276,783,000), with total bank borrowings of RMB121,468,000 (31 December 2019: RMB61,375,000), all of which were denominated in RMB (31 December 2019: all). Of the bank borrowings of the Group as at 30 June 2020, (i) approximately 82.5% were repayable within one year (31 December 2019: approximately 62.5%); (ii) approximately 3.0% were repayable between one and two years (31 December 2019: approximately 5.7%); (iii) approximately 9.7% were repayable between two and five years (31 December 2019: approximately 18.9%); and (iv) approximately 4.8% were repayable over five years (31 December 2019: approximately 12.9%). The Group's gearing ratio as at 30 June 2020 was 22.0% (31 December 2019: 11.1%), based on the short-term and long-term interest bearing bank borrowings divided by the equity attributable to equity holders of the Company. As at 30 June 2020, all of the bank borrowings of the Group were variable rate borrowings (31 December 2019: all). As at 30 June 2020, the Group had net current assets of RMB181,913,000 (31 December 2019: net current assets of RMB206,325,000).

Treasury management policy

The treasury management policy of the Group is to utilise surplus cash reserves to invest in low-risk wealth management products and 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-risk, short-term (with maturity periods not more than one year) wealth management products, including but not limited to (i) money market instruments such as certified deposits and currency funds; and (ii) debt instruments such as sovereign debt, central bank-issued debts and various debt funds. 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 must sign 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 for 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 2020 were denominated in RMB and USD. 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.

Contingent liabilities

As at 30 June 2020, 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 2019: nil).

Pledge of assets

As at 30 June 2020, bank borrowings of RMB49,718,000 were secured by the property, plant and equipment and right-of-use for lands of the Group, net book value of which amounted to RMB42,097,000 and RMB37,021,000 respectively (31 December 2019: bank borrowings of RMB61,375,000 were secured by the property, plant and equipment and right-of-use for lands of the Group, net book value of which amounted to RMB42,690,000 and RMB37,543,000 respectively).

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 4,055 employees as at 30 June 2020 (31 December 2019: 3,510 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.

DECLARATION OF INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare an interim dividend of HK\$0.06 per Share for the six months ended 30 June 2020 to the shareholders of the Company. The register of members of the Company will be closed from 9 September 2020 to 11 September 2020 (both days inclusive). During this period, no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfers of Shares 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, Hong Kong not later than 4:30 p.m. on 8 September 2020. The interim dividend is expected to be paid on or about 15 October 2020 to those shareholders on the register of members of the Company on 11 September 2020.

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 2020 and up to the date of this interim results announcement, 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 they have confirmed that they have complied with the Model Code for the six months ended 30 June 2020 and up to the date of this interim results announcement.

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, Dr. Liu Jianhua and Mr. Yang Xuezhi. 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 2020 and this interim results announcement 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 2020.

5. Use of net proceeds from global offering

On 21 June 2019, the Shares were listed on the Main Board of the Stock Exchange by way of global offering. The net proceeds from the global offering (the "IPO Proceeds") were approximately HK\$450.1 million.

As stated in the Prospectus, the Company intended to use the IPO Proceeds in the following manner:

- approximately 50.0%, or HK\$225.1 million to be used primarily to expand its learning centre network in the Greater Bay Area;
- approximately 30.0%, or HK\$135.0 million, is expected to be used primarily to improve its teaching quality; and
- approximately 20.0%, or HK\$90.0 million, is expected to be used primarily to renovate the facilities of its learning centres and purchase teaching equipment to improve its students' learning experience so as to further optimise the pricing of its classes and enhance profitability.

There was no change in the intended use of IPO Proceeds as previously disclosed in the Prospectus.

As at 30 June 2020, the Group had utilised the IPO Proceeds in the manner as set out in the table below:

		IPO Proceeds	Utilisation as at 30 June 2020	Unutilised amount
	%		HK\$'million	
Expanding its learning centre network in the Greater Bay Area	50%	225.1	49.9	175.2
Improving its teaching quality	30%	135.0	57.9	77.1
Renovating the facilities of its learning centres and purchasing teaching equipment	20%	90.0	17.3	72.7
Total	100%	450.1	125.1	325.0

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results 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 2020 will be published on the aforesaid websites and will be despatched to the Company's shareholders in due course.

DEFINITIONS

“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
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
“Greater Bay Area”	Guangdong-Hong Kong-Macau Greater Bay Area
“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
“Prospectus”	the prospectus of the Company dated 12 June 2019 in connection with the global offering of the Shares
“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, 19 August 2020

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

Executive Directors

Mr. Chen Qiyuan (*chairman*)

Mr. Chen Hongyu

Mr. Qi Mingzhi (*chief executive officer*)

Mr. Xu Chaoqiang

Independent non-executive Directors

Mr. Huang Victor

Dr. Liu Jianhua

Mr. Yang Xuezhi

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.