思考乐教育

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 2021

HIGHLIGHTS

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2021. 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$0.1 per Share for the six months ended 30 June 2021 to the shareholders of the Company. The interim dividend is expected to be paid on or about 22 October 2021 to the shareholders on the register of members of the Company on 13 September 2021.

FINANCIAL HIGHLIGHTS

	For the period ended 30 June		**Percentage change**
	2021	2020	
	RMB'000	*RMB'000*	
Revenue	**517,055**	325,607	58.8%
Operating profit	**77,793**	66,658	16.7%
Profit for the period	**42,749**	46,323	(7.7%)
Adjusted profit for the period*(Note)*	**62,856**	64,280	(2.2%)
Earnings per Share			
	RMB cents	*RMB cents*	
Basic	**7.76**	8.34	(7.0%)
Diluted	**7.66**	8.18	(6.4%)
Adjusted earnings per Share*(Note)*			
Basic	**11.41**	11.57	(1.4%)
Diluted	**11.27**	11.35	(0.7%)

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		
	2021	2020	**Percentage**
	Unaudited	*Unaudited*	**Change**
	RMB'000	*RMB'000*	
Profit for the period	**42,749**	46,323	(7.7%)
Add:			
Share option benefit expenses	**13,479**	13,479	—
Effect on the adoption of IFRS 16 — Leases	**6,628**	4,478	48.0%
Adjusted profit for the period	**62,856**	64,280	(2.2%)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Unaudited Six months ended 30 June	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
Revenue	*5*	**517,055**	325,607
Cost of sales	*8*	**(324,592)**	(203,372)
Gross profit		**192,463**	122,235
Selling expenses	*8*	**(8,754)**	(5,943)
Administrative expenses	*8*	**(93,908)**	(58,352)
Research and development expenses	*8*	**(38,176)**	(20,397)
Other income — net	*6*	**18,637**	15,276
Other gains — net	*7*	**7,531**	13,839
Operating profit		**77,793**	66,658
Finance costs	*9*	**(17,936)**	(16,856)
Profit before income tax		**59,857**	49,802
Income tax expense	*10*	**(17,108)**	(3,479)
Profit for the period		**42,749**	46,323
Earnings per share (expressed in RMB cents per share)			
— Basic earnings per share	*11*	**7.76**	8.34
— Diluted earnings per share	*11*	**7.66**	8.18
Profit for the period		**42,749**	46,323
Other comprehensive income			
Items that will not be reclassified to profit or loss			
— Revaluation gains on investment properties upon transfer from property, plant and equipment		**378**	—
Total comprehensive income for the period		**43,127**	46,323

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**Unaudited As at 30 June 2021** *RMB'000*	Audited As at 31 December 2020 *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**134,960**	170,333
Right-of-use assets	*12*	**536,346**	643,427
Investment properties		**65,000**	—
Intangible assets		**3,291**	2,857
Prepayments and other receivables		**30,026**	50,461
Deferred tax assets		**35,204**	36,064
Total non-current assets		**804,827**	903,142
Current assets			
Prepayments and other receivables		**75,451**	22,751
Financial assets at fair value through profit or loss		**450,792**	298,943
Cash and cash equivalents		**146,232**	442,586
Total current assets		**672,475**	764,280
Total assets		**1,477,302**	1,667,422
Equity			
Share capital	*13*	**3,775**	3,775
Share premium		**241,641**	295,908
Shares held for employee share scheme		**(53,896)**	(1,050)
Other reserves		**80,218**	66,361
Retained earnings		**215,792**	173,043
Total equity		**487,530**	538,037

	Notes	Unaudited As at 30 June 2021 *RMB'000*	Audited As at 31 December 2020 *RMB'000*
Liabilities			
Non-current liabilities			
Lease liabilities		**426,531**	484,628
Total non-current liabilities		**426,531**	484,628
Current liabilities			
Contract liabilities		**279,643**	357,039
Lease liabilities		**107,623**	117,783
Trade and other payables	*15*	**104,330**	105,078
Current income tax liabilities		**11,679**	10,457
Borrowings		**59,966**	54,400
Total current liabilities		**563,241**	644,757
Total liabilities		**989,772**	1,129,385
Total equity and liabilities		**1,477,302**	1,667,422

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 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 24 August 2021 and has not been audited.

2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

This condensed consolidated interim financial information for the half-year reporting period ended 30 June 2021 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 2020 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 2020 (the "2020 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.

- COVID-19-Related Rent Concessions — Amendments to IFRS 16
- Interest rate benchmark reform — phrase 2 — Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

(b) New standards and interpretations not yet adopted

		Effective for annual periods beginning on or after
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Cost of Fulfilling a Contract	1 January 2022
Annual improvement project	Annual Improvements 2018–2020 Cycle	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023
IFRS 10 and IAS 28 (Amendments)	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 2021 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.

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 2020 Financial Statements.

There have been no changes in the risk management function since 31 December 2020 or in any risk management policies since 31 December 2020.

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 1 year *RMB'000*	**1 to 2 years** *RMB'000*	**2 to 5 years** *RMB'000*	**over 5 years** *RMB'000*	**Total** *RMB'000*
As at 30 June 2021					
Trade payables	**3,950**	**—**	**—**	**—**	**3,950**
Other payables	**13,197**	**—**	**—**	**—**	**13,197**
Borrowings	**60,971**	**—**	**—**	**—**	**60,971**
Lease liabilities	**120,904**	**112,006**	**262,934**	**170,850**	**666,694**
	199,022	**112,006**	**262,934**	**170,850**	**744,812**

	within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	over 5 years *RMB'000*	Total *RMB'000*
As at 31 December 2020					
Trade payables	3,363	—	—	—	3,363
Other payables	15,984	—	—	—	15,984
Borrowings	55,166	—	—	—	55,166
Lease liabilities	134,582	127,472	296,197	174,382	732,633
	209,095	127,472	296,197	174,382	807,146

4.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2021 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 2021 were as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Asset				
Financial assets at fair value through profit or loss ("FVPL")	**—**	**—**	**450,792**	**450,792**

Financial instruments at fair value as at 31 December 2020 were as follows:

	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Asset				
Financial assets at FVPL	—	—	298,943	298,943

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 2021.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the six months ended 30 June 2021.

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.

As at 30 June 2021, there were certain investment properties measured at fair value in using comparison approach which were approximate to the fair value.

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 after-school education services for the six months ended 30 June 2021.

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Recognised over time		
— After-school education services	**517,055**	325,607

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	
	2021	2020
	RMB'000	*RMB'000*
Sub-lease *(a)*		
— Sub-lease income	**2,204**	4,377
— Sub-lease expense	**(2,082)**	(4,558)
Rental income from operating leases	**824**	—
Finance income	**1,441**	3,855
Government grants	**16,250**	11,602
	18,637	15,276

(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 — NET

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Fair value gains on financial assets at FVPL	**18,077**	12,816
Lease modification	**6,771**	1,201
Net losses on disposal of property, plant and equipment	**(9,449)**	(3)
Deposits losses	**(3,317)**	—
Compensation charges	**(2,530)**	—
Fair value losses on investment properties	**(1,000)**	—
Net foreign exchange losses	**(655)**	(177)
Others	**(366)**	2
	7,531	13,839

8. EXPENSES BY NATURE

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Employee benefit expenses	**305,880**	182,476
Depreciation and amortisation	**88,032**	73,210
Teaching materials	**16,062**	11,016
Impairment provision on property, plant and equipment	**15,169**	—
Property management expenses	**7,445**	6,002
Advertising and exhibition expenses	**4,362**	3,193
Utilities	**3,925**	2,190
Office expenses	**3,924**	2,718
Maintenance cost	**3,716**	1,234
Professional service fees	**2,570**	1,517
Other taxes	**2,111**	1,378
Renting expenses	**1,354**	—
Recruitment expenses	**896**	584
Entertainment expenses	**875**	819
Auditor's remuneration	**850**	886
Software usage fees	**842**	11,079
Travel and transportation	**601**	489
Allowance for impairment	**1,316**	—
Rent concession related to COVID-19	**(1,175)**	(11,934)
Others	**6,675**	1,207
	465,430	288,064

9. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Finance expenses		
— Interest expense on borrowings	**1,097**	2,437
— Interest expense on leasing liabilities	**16,839**	14,419
	17,936	16,856

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Current tax		
— Current tax on profits for the period	**16,248**	9,874
Deferred income tax		
— Increase/(decrease) in deferred income tax	**860**	(6,395)
Income tax expense	**17,108**	3,479

11. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are 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	
	2021	2020
Earnings attributable to equity holders of the Company (in RMB thousands)	**42,749**	46,323
Weighted average number of ordinary shares in issue (thousand shares)	**550,871**	555,700
Basic earnings per share (expressed in RMB cents per share)	**7.76**	8.34

(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	
	2021	2020
Diluted earnings per share (expressed in RMB cents per share)	**7.66**	8.18

(c) Diluted earnings per share

Weighted average number of shares used as the denominator

	Six months ended 30 June	
	2021	2020
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**550,871,000**	555,700,000
Adjustments for calculation of diluted earnings per share:		
Share options	**7,053,000**	10,428,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**557,924,000**	566,128,000

12. RIGHT-OF-USE ASSETS AND LEASES

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

	As at 30 June 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Right-of-use assets		
Land use rights	**60,056**	87,675
Properties	**476,290**	555,752
	536,346	643,427
Lease liabilities		
Current	**107,623**	117,783
Non-current	**426,531**	484,628
	534,154	602,411

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Depreciation charge of right-of-use assets		
— Properties	**59,030**	51,576
— Land use rights	**1,396**	1,445
	60,426	53,021
Finance costs on leases	**16,839**	14,419

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

For the six months ended 30 June 2021, the cash outflows from financing activities for leases were RMB59,656,000 (For the six months ended 30 June 2020: RMB43,409,000) and cash outflows from operating activities for short-term lease was RMB1,354,000 (For the six months ended 30 June 2020: Nil).

(d) Rent concessions related to COVID-19

For the six months ended 30 June 2021, the rent concessions related to COVID-19 were RMB1,175,000 (For the six months ended 30 June 2020: 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*
As at 1 January 2021 and 30 June 2021 and 1 January 2020 and 30 June 2020	1,000,000,000	1,000,000	6,860,633	555,700,000	555,700	3,774,897

14. DIVIDENDS

For the six months ended 30 June 2021, the Company declared and paid the final dividends for the year ended 31 December 2020, amounting to HK$66,684,000 (equivalent to RMB54,918,000), out of its share premium.

On 24 August 2021, the Board has recommended an interim dividend of HK$0.1 per share. This interim dividend, amounting to HK$55,570,000, has not been recognised as liabilities in this interim financial information.

15. TRADE AND OTHER PAYABLES

	As at 30 June 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Current		
Trade payables (a)	**3,950**	3,363
Employee benefits payables	**74,211**	68,495
Other taxes payables	**12,876**	17,180
Interest payables	**96**	56
Other payables	**13,197**	15,984
	104,330	105,078

(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 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Three months or less	**1,438**	2,493
Three to six months	**1,877**	607
Six months to one year	**635**	263
	3,950	3,363

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

The Group upholds the educational philosophy of "focusing on academic excellence to enable its students to achieve their aspirations" (博學精教，成就學生). Over the years, by virtue of its high standard of teaching quality and good word of mouth, together with its service philosophy of "taking care of every single child wholeheartedly" (把每一個孩子放在心上), the Group has implemented a two-pronged teaching model, namely "knowledge + education" (知識+育人). Apart from sharing knowledge, the Group also focuses on the moral education of its students by which its students can develop a healthy personality in combination with studying and thinking and be encouraged to act based on their initiatives and to enhance their in-depth thinking ability. After a decade of development and endeavour, the Group's learning centres span across Shenzhen, Dongguan, Foshan, Huizhou, Jiangmen, Zhongshan, Guangzhou, Zhuhai, Maoming, Ningbo and Suzhou, where the Group provides premium educational services to over 100,000 families every year.

Even though the Group was still subject to the impact brought by the outbreak of the COVID-19 pandemic during the first half of the year to a minor extent, its business remained on the track of stable development. During the six months ended 30 June 2021, the Group's tutoring hours increased 50.1% to 5,844,082 hours from 3,893,674 hours for the same period of last year. The Group's revenue increased by 58.8% to RMB517.1 million; its profit decreased by 7.7% to RMB42.7 million; its adjusted profit decreased by 2.2% to RMB62.9 million, as compared to the same period of last year.

Future prospects and development strategies

The Group has considered the well-being of students as the core of its corporate value. In order to align with the new national policy of the Opinions on Double Reduction, the Group will take initiatives to achieve business transformation and satisfy the all-rounded development of children as much as practicable. The Group 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 and calligraphy, with a view to fulfilling various needs of students and encouraging students to develop their hobbies and talents, such that children can achieve a balanced development in the five aspects of "ethics, intellect, physique, aesthetics and hardwork" and enjoy a healthy and all-rounded development.

In addition, the Group will actively organise after-school care services, by which students can receive its quality after-school care services from professional teachers in a safe and comfortable environment. With its talented teachers as their companions in daily lives, the Group's students can grow sturdily and will be motivated to build positive thinking and attitude as well as to cultivate their capability in lifelong learning.

As an extra-curricular educational service provider who has been providing law-abiding educational services, the Group will remain compliant with the relevant regulations and requirements, adhere to its fundamental mission to foster one's character and civil virtue, and adjust its standards for its subject tutorial business. In order to improve operational efficiency, the Company will actively close down some of its learning centres that do not meet its targets set out in key performance indicators, which is expected to have a negative impact on revenue in the future.

Meanwhile, the Group will strictly control and reduce costs and maintain steady cash flow, while striving to promote the comprehensive and diversified development of the Group's liberal education and businesses such as the extra-curricular care business. The Company will retain the teachers with outstanding talent and enable them to develop their potential on the Company's platform while continuing to provide quality services to students, which can complement the school education. Meanwhile, in response to the reduction in the number of learning centres, the Company will make reasonable and appropriate improvement to the teaching team, so as to stimulate their motivation and maintain the vitality and competitiveness of the Company. The Group will strive to be well-placed for the opportunities and challenges ahead.

The Group will remain steadfast in the original intention of education, develop its technology and continue to enhance the quality of its education and teaching as well as service standards. In addition to fulfilling social responsibilities, the Group will also serve the overall development of the nation and strive to contribute to the development of a strong socialist country equipped with modernised education and the cultivation of contributors and successors who have received all-rounded development in "ethics, intellect, physique, aesthetics and hardwork" and follow the principles of socialism.

Financial review

1. ***Revenue***

The Group's revenue increased by 58.8% from RMB325.6 million for the six months ended 30 June 2020 to RMB517.1 million for the six months ended 30 June 2021. This increase was primarily due to increases in the total student enrolments and tutoring hours, which were primarily because of (i) an increase in the total number of the Group's learning centres from 127 for the six months ended 30 June 2020 to 152 for the six months ended 30 June 2021; and (ii) an increase in the average tuition fee per tutoring hour for regular courses from RMB83.6 for the six months ended 30 June 2020 to RMB88.5 for the six months ended 30 June 2021.

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 2021 Unaudited ***RMB'000***	Six months ended 30 June 2020 Unaudited *RMB'000*	Change
Academic preparation programme	**494,824**	314,597	57.3%
Early primary education programme	**22,231**	11,010	101.9%
Total	**517,055**	325,607	58.8%

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 2021		Six months ended 30 June 2020		Change	
	Student enrolments	**Tutoring hours**	Student enrolments	Tutoring hours	Student enrolments	Tutoring hours
Academic preparation programme	**202,700**	**5,581,039**	121,117	3,756,154	67.4%	48.6%
Early primary education programme	**6,287**	**263,043**	2,721	137,520	131.1%	91.3%
Total	**208,987**	**5,844,082**	123,838	3,893,674	68.8%	50.1%

2. ***Cost of sales***

The cost of sales of the Group increased by 59.6% from RMB203.4 million for the six months ended 30 June 2020 to RMB324.6 million for the six months ended 30 June 2021. This increase was primarily due to (i) an increase in teacher compensation and amortisation of right-of-use assets, primarily contributed by the increase of the total number of the Group's learning centres from 127 for the six months ended 30 June 2020 to 152 for the six months ended 30 June 2021 as a result of the expansion of the Group's learning centre network and growth of the Group's business; and (ii) a decrease in expenses of HK$10.2 million arising from the delivery of online classes during the pandemic last period.

3. ***Gross profit and gross profit margin***

As a result of the foregoing, the gross profit of the Group increased by 57.5% from RMB122.2 million for the six months ended 30 June 2020 to RMB192.5 million for the six months ended 30 June 2021. The gross profit margin of the Group slightly decreased from 37.5% for the six months ended 30 June 2020 to 37.2% for the six months ended 30 June 2021.

4. ***Selling expenses***

The selling expenses of the Group increased by 47.3% from RMB5.9 million for the six months ended 30 June 2020 to RMB8.8 million for the six months ended 30 June 2021. The increase was primarily due to (i) an increase in its customer service personnel as a result of the expansion of its learning centre network; and (ii) an increase in advertising and exhibition expenses in connection with parents seminars and talks held by the Group to promote its brand and services.

5. ***Administrative expenses***

The administrative expenses of the Group increased by 60.9% from RMB58.4 million for the six months ended 30 June 2020 to RMB93.9 million for the six months ended 30 June 2021. This increase was mainly due to (i) an increase of RMB9.5 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; (ii) impairment provision on property, plant and equipment of RMB15.2 million; and (iii) an increase in RMB1.2 million in office expenses.

6. ***Research and development expenses***

The research and development expenses of the Group increased by 87.2% from RMB20.4 million for the six months ended 30 June 2020 to RMB38.2 million for the six months ended 30 June 2021. The increase was primarily due to an increase in the number of research and development personnel.

7. ***Other income — net***

The other net income of the Group increased by 22.0% from RMB15.3 million for the six months ended 30 June 2020 to RMB18.6 million for the six months ended 30 June 2021. This increase was primarily due to an increase of RMB4.6 million in government grants primarily as a result of the government's measures to provide relief for the economic consequences of the COVID-19 pandemic. The increase was offset in part by the decrease of RMB2.4 million in finance income.

8. ***Other gains — net***

The other net gains of the Group decreased by 45.6% from RMB13.8 million for the six months ended 30 June 2020 to RMB7.5 million for the six months ended 30 June 2021. This decrease was primarily attributable to an increase of RMB9.4 million in losses on disposal of property, plant and equipment, deposits losses of RMB3.3 million, compensation charges of RMB2.5 million and fair value losses on investment properties of RMB1.0 million. The decrease was partially offset by the increase in RMB5.6 million in lease modification and an increase in RMB5.3 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.

9. ***Finance costs***

The finance costs of the Group increased by 6.4% from RMB16.9 million for the six months ended 30 June 2020 to RMB17.9 million for the six months ended 30 June 2021, primarily due to an increase in interest expenses on lease liabilities of RMB2.4 million. The increase was offset in part by the decrease of RMB1.3 million in interest expenses in borrowings.

10. *Profit before income tax*

As a result of the foregoing, the profit of the Group before income tax increased by 20.2% from RMB49.8 million for the six months ended 30 June 2020 to RMB59.9 million for the six months ended 30 June 2021.

11. *Income tax expenses*

The income tax expenses of the Group were approximately RMB3.5 million for the six months ended 30 June 2020 as compared to the income tax expenses of RMB17.1 million for six months ended 30 June 2021. The effective tax rate of the Group was 28.6% for the six months ended 30 June 2020 as compared to the effective tax rate of 7.0% for the six months ended 30 June 2021. The increase in the effective tax rate was primarily due to the derecognition of deferred tax assets arising on tax losses for the six months ended 30 June 2021.

12. *Profit for the period*

As a result of the foregoing, the profit of the Group for the period decreased by 7.7% from RMB46.3 million for the six months ended 30 June 2020 to RMB42.7 million for the six months ended 30 June 2021.

Adjusted profit for the period

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		
	2021	2020	**Percentage**
	Unaudited	Unaudited	**Change**
	RMB'000	*RMB'000*	
Profit for the period	**42,749**	46,323	(7.7%)
Add:			
Share option benefit expenses *(Note 1)*	**13,479**	13,479	—
Effect on the adoption of IFRS 16 — Leases *(Note 2)*	**6,628**	4,478	48.0%
Adjusted profit for the period	**62,856**	64,280	(2.2%)

Notes:

(1) Share option benefit expenses: These expenses were incurred in connection with the share options granted to the employees of the Group on 25 September 2019, 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.

(2) Effect on the adoption of IFRS 16 — Leases: The effects of application of IFRS 16 include (i) the depreciation of right-of-use assets that is higher than the rental expenses that would have been incurred under IAS 17 — Leases. Such depreciation expenses significantly increased the Group's costs of sales; and (ii) the increase in interest expenses on lease liabilities, which significantly increased the Group's finance costs. Such effects were due to the changes of the relevant accounting standard and are not directly relevant to the Group's operating performance.

Liquidity, financial resources and capital structure

The total equity of the Group as at 30 June 2021 was RMB487.5 million (31 December 2020: RMB538.0 million). The Group generally financed its operations with internally generated cash flows. As at 30 June 2021, the Group's cash and cash equivalents decreased by 67.0% from RMB442.6 million as at 31 December 2020 to RMB146.2 million. As at 30 June 2021, the current assets of the Group amounted to RMB672.5 million (31 December 2020: RMB764.3 million), including RMB450.8 million (31 December 2020: RMB298.9 million) in financial assets at fair value through profit or loss, RMB146.2 million (31 December 2020: RMB442.6 million) in bank balances and cash and other current assets of RMB75.5 million (31 December 2020: RMB22.8 million). The current liabilities of the Group amounted to RMB563.2 million (31 December 2020: RMB644.8 million), of which RMB279.6 million (31 December 2020: RMB357.0 million) were contract liabilities, RMB107.6 million (31 December 2020: RMB117.8 million) were lease liabilities, RMB60.0 million (31 December 2020: RMB54.4 million) were short-term interest bearing bank borrowings and approximately RMB116.0 million (31 December 2020: RMB115.5 million) were other payables and accruals. The Group had total bank borrowings of RMB60.0 million (31 December 2020: RMB54.4 million), all of which were denominated in RMB (31 December 2020: all). The bank borrowings of the Group as at 30 June 2021 were wholly repayable within one year (31 December 2020: all). The Group's gearing ratio as at 30 June 2021 was 12.3% (31 December 2020: 10.1%), based on the short-term interest bearing bank borrowings and the equity attributable to the Shareholders. As at 30 June 2021, bank borrowing of RMB49,966,000 and RMB10,000,000 were at variable and fixed rate respectively (31 December 2020: all are variable rate borrowings). As at 30 June 2021, the Group had net current assets of RMB109.2 million (31 December 2020: RMB119.5 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 faced by the Group, the Group generally invests in low-risk and short-term (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; and (iii) debt instruments such as sovereign debts, 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 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 2021 were denominated in RMB and HKD. 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 2021, 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 2020: nil).

Pledge of assets

As at 30 June 2021, bank borrowings of RMB10,000,000 were secured by the patents of the Group (31 December 2020: the Group has repaid all of the bank borrowings carried as at 31 December 2019 and the secured by the property, plant and equipment and right-of-use assets for lands of the Group had been released).

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 period ended 30 June 2021. 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. As at 30 June 2021, 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 2021.

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 3,631 employees as at 30 June 2021 (31 December 2020: 4,574 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$0.1 per Share for the six months ended 30 June 2021 to the shareholders of the Company. The register of members of the Company will be closed from 9 September 2021 to 13 September 2021 (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 2021. The interim dividend is expected to be paid on or about 22 October 2021 to those shareholders on the register of members of the Company on 13 September 2021.

Subsequent Events

In July 2021, the General Office of the Chinese Communist Party and the General Office of the State Council of the PRC published the Opinions on Double Reduction. The Opinions on Double Reduction proposes certain measures intended to ease the workload of students in compulsory education and regulate the relevant after-school education service providers in the PRC. It specifies that the government of every province (including autonomous region and municipality) should refine the implementation measures taking into account local circumstances and establish a specialised organisation to ascertain the roadmap, timeline and responsible personnel for implementing the governance actions to achieve the objective of "double reduction" (雙減).

The Opinions on Double Reduction contains high-level policy directives about requirements and restrictions related to both online and offline after-school tutoring services, including (i) institutions providing after-school tutoring services on academic subjects in China's compulsory education system, or academic after-school tutoring institutions, need to be registered as non-profit, no approval will be granted to new academic after-school tutoring institutions, and an approval mechanism will be adopted for online academic after-school tutoring institutions; (ii) foreign ownership in academic after-school tutoring institutions is prohibited, including through contractual arrangements, and companies with existing foreign ownership need to rectify the situation; (iii) listed companies are prohibited from raising capital to invest in businesses that teach academic subjects in compulsory education; (iv) academic after-school tutoring institutions are prohibited from providing tutoring services on academic subjects in compulsory education during public holidays, weekends and school breaks; and (v) academic after-school tutoring institutions must follow the fee standards to be established by relevant authorities. The Opinions on Double Reduction also provides that institutions providing after-school tutoring services on academic subjects in high schools (which do not fall within China's compulsory education system) shall take into consideration the Opinions on Double Reduction when conducting activities.

The Company is committed to complying with the principles of the Opinions on Double Reduction and the implementation rules in the interest of the students' well-being. With the assistance of the Company's PRC legal advisers, the Board will continue to monitor the development of the Opinions on Double Reduction and other relevant rules and regulations (particularly the implementation of the Opinions on Double Reduction in Shenzhen, where the Group's operations are substantially based) and make adjustments to the Group's business operations as necessary.

Based on the principles set out in the Opinions on Double Reduction, the Directors expect that the Group will need to make certain adjustments to its business operations, including, among others, to re-arranging the timing of the classes and ceasing to operate certain learning centres that do not meet the key operating parameters as originally envisaged, which is expected to have a negative impact on the Group's financial performance and operating prospects.

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 2021 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 the relevant employees and they have confirmed that they had complied with the Model Code for the six months ended 30 June 2021 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 2021 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 2021.

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 at 30 June 2021, the Group had utilised the IPO Proceeds in the manner as set out in the table below:

	%	IPO Proceeds	Utilisation as at 30 June 2021	Unutilised amount
			HK$'million	
Expanding its learning centre network in the Guangdong-Hong Kong-Macau Greater Bay Area	50%	225.1	175.4	49.7
Improving its teaching quality	30%	135.0	133.1	1.9
Renovating the facilities of its learning centres and purchasing teaching equipment	20%	90.0	49.6	40.4
Total	100%	450.1	358.1	92.0

PUBLICATION OF THIS 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 2021 will be published on the aforesaid websites and will be despatched to the 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
"Opinions on Double Reduction"	the Opinion on Further Easing the Workload of Students in Compulsory Education and Burden of After-school Tutoring (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》) published by the General Office of the Chinese Communist Party and the General Office of the State Council of the PRC
"PRC"	the People's Republic of China, excluding, for the purposes of this announcement only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Share(s)"	ordinary share(s) of US$0.001 each in the share capital of the Company

"Shareholder(s)"	holder(s) of the Share(s)
"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, 24 August 2021

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

Non-executive Director
Mr. Shen Jing Wu *(vice chairman)*

Independent non-executive Directors
Mr. Huang Victor
Dr. Liu Jianhua
Mr. Yang Xuezhi

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.