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思考乐教育
SCHOLAR
EDUCATION

SCHOLAR EDUCATION GROUP

思考樂教育集團

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1769)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

HIGHLIGHTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2022. These results have been reviewed by the Company's audit committee.

FINANCIAL HIGHLIGHTS

	For the year ended			Percentage change
	31 December			
	2022	2021	Change	
	RMB'000	RMB'000	RMB'000	
Revenue	402,082	831,725	(429,642)	(51.7)%
Gross profit	138,692	315,021	(176,329)	(56.0)%
Profit/(loss) for the year attributable to equity holders	54,411	(26,611)	81,022	304.5%
Earnings/(loss) per Share				
	RMB cents	RMB cents	RMB cents	
Basic	9.79	(4.83)	14.62	302.7%
Diluted	9.79	(4.83)	14.62	302.7%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
Revenue	5	402,082	831,725
Cost of sales	8	<u>(263,390)</u>	<u>(516,704)</u>
Gross profit		138,692	315,021
Selling expenses	8	(4,684)	(13,629)
Administrative expenses	8	(82,412)	(170,052)
Research and development expenses	8	(16,244)	(53,382)
Other income — net	6	10,617	22,520
Other gains/(losses) — net	7	<u>3,044</u>	<u>(65,895)</u>
Operating profit		49,013	34,583
Finance costs	9	<u>(6,703)</u>	<u>(28,985)</u>
Profit before income tax		42,310	5,598
Income tax credit/(expense)	10	<u>11,547</u>	<u>(32,610)</u>
Profit/(loss) for the year		<u>53,857</u>	<u>(27,012)</u>
Profit/(loss) for the year is attributable to:			
— Equity holders of the Company		54,411	(26,611)
— Non-controlling interests		<u>(554)</u>	<u>(401)</u>
		<u>53,857</u>	<u>(27,012)</u>
Profit/(loss) for the year		53,857	(27,012)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation gains on investment properties upon transfer from property, plant and equipment		<u>—</u>	<u>378</u>
Total comprehensive income/(loss) for the year		<u>53,857</u>	<u>(26,634)</u>

		Year ended 31 December	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
Total comprehensive income/(loss) for the year is attributable to:			
— Equity holders of the Company		54,411	(26,233)
— Non-controlling interests		<u>(554)</u>	<u>(401)</u>
		<u>53,857</u>	<u>(26,634)</u>
Earnings/(loss) per share (expressed in RMB cents per share)			
— Basic	<i>11</i>	<u>9.79</u>	<u>(4.83)</u>
— Diluted	<i>11</i>	<u>9.79</u>	<u>(4.83)</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		37,678	54,369
Right-of-use assets	12	135,895	179,388
Investment properties		82,375	65,100
Intangible assets		2,454	2,800
Prepayments and other receivables		10,931	18,694
Deferred tax assets		20,264	12,721
Financial assets at fair value through profit or loss		<u>32,695</u>	<u>24,129</u>
Total non-current assets		<u>322,292</u>	<u>357,201</u>
Current assets			
Prepayments and other receivables		16,566	11,425
Financial assets at fair value through profit or loss		117,295	155,725
Cash and cash equivalents		298,737	236,041
Restricted cash		<u>35</u>	<u>176</u>
Total current assets		<u>432,633</u>	<u>403,367</u>
Total assets		<u>754,925</u>	<u>760,568</u>
Equity			
Share capital	13	3,775	3,775
Share premium		82,698	82,698
Other reserves		32,338	33,293
Retained earnings		<u>252,591</u>	<u>198,180</u>
Capital and reserves attributable to equity holders of the Company		<u>371,402</u>	<u>317,946</u>
Non-controlling interests		<u>—</u>	<u>(401)</u>
Total equity		<u>371,402</u>	<u>317,545</u>

		As at 31 December	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities		<u>82,764</u>	<u>119,592</u>
Total non-current liabilities		<u>82,764</u>	<u>119,592</u>
Current liabilities			
Contract liabilities		181,524	176,251
Lease liabilities		34,169	32,804
Trade and other payables	15	83,431	80,941
Current income tax liabilities		1,635	3,435
Borrowings		<u>—</u>	<u>30,000</u>
Total current liabilities		<u>300,759</u>	<u>323,431</u>
Total liabilities		<u>383,523</u>	<u>443,023</u>
Total equity and liabilities		<u>754,925</u>	<u>760,568</u>

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 and PRC Consolidated Affiliated Entities (as defined below) (collectively referred to as the “**Group**”) are principally engaged in the provision of private education services in the People’s Republic of China (the “**PRC**” or “**China**”).

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

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

The consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

The consolidated financial statements were approved for issue by the Board of Directors of the Company on 30 March 2023.

2. BASIS OF PREPARATION AND REORGANISATION

Prior to the reorganisation (as defined below), the Listing Business was mainly carried out by Shenzhen Scholar Culture and Education Technology Development Co., Ltd. (深圳市思考樂文化教育科技發展有限公司) (“**Shenzhen Scholar**”) a limited liability company established in Shenzhen, the PRC, and its subsidiaries (the “**PRC Consolidated Affiliated Entities**”).

On 9 April 2018, FengYe (Shenzhen) Science and Technology Co., Ltd. (楓燦(深圳)科技有限公司) (“**Shenzhen Fengye**”), which is wholly owned by the Company, entered into various agreements (the “**Structured Contracts**”) with Shenzhen Scholar and its equity holders, under which all economic benefits arising from the business and operations of the PRC Consolidated Affiliated Entities are transferred to Shenzhen Fengye. Accordingly, the PRC Consolidated Affiliated Entities are treated as controlled structured entities of Shenzhen Fengye and ultimately controlled by the Company (the “**Reorganisation**”).

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“**FVPL**”) and investment properties, which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

The Group will continue to implement measures before the Structured Contracts are unwound, with an aim to further enhance its control over the PRC Consolidated Affiliated Entities. The Company is not aware of any non-performance of the Structured Contracts or non-compliance with such aforementioned measures as at the date of this report. As advised by the Group’s PRC legal counsel, the Group did not violate existing PRC laws and regulations and the Structured Contracts are legally enforceable for the year ended 31 December 2022 and up to the date of this report. The directors will continue to closely monitor the development of laws and regulations and will make further appropriate adjustment of its business model whenever needed to ensure comply with the new relevant policies. Based

on cashflow projections for a period of not less than 12 months after 31 December 2022, the directors are in the opinion that the Group’s available source of funds is sufficient to fulfil its financial obligations as when fall due in the coming twelve months from 31 December 2022. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3. ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments International Accounting Standards (“IAS”) to IAS 16
- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020; and
- Reference to the Conceptual Framework — Amendments to IFRS 3

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

		Effective for annual periods beginning on or after
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IFRS 16	Leases on sale and leaseback	1 January 2024
Amendments to IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures	To be determined

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations 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.

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 the year-end).

	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 2022					
Trade payables	1,281	—	—	—	1,281
Other payables	11,042	—	—	—	11,042
Lease liabilities	<u>37,138</u>	<u>29,928</u>	<u>35,393</u>	<u>100,219</u>	<u>202,678</u>
	<u>49,461</u>	<u>29,928</u>	<u>35,393</u>	<u>100,219</u>	<u>215,001</u>
As at 31 December 2021					
Trade payables	1,948	—	—	—	1,948
Other payables	24,926	—	—	—	24,926
Borrowings	30,397	—	—	—	30,397
Lease liabilities	<u>36,217</u>	<u>38,614</u>	<u>66,774</u>	<u>69,602</u>	<u>211,207</u>
	<u>93,488</u>	<u>38,614</u>	<u>66,774</u>	<u>69,602</u>	<u>268,478</u>

4.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value 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 31 December 2022 and 2021 were as follows:

2022	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Asset				
Wealth management products	—	—	117,295	117,295
Listed equity investments in Mainland China	2,065	—	—	2,065
Unlisted equity investments in Mainland China	—	—	30,630	30,630
	<u>2,065</u>	<u>—</u>	<u>147,925</u>	<u>149,990</u>
2021	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Asset				
Wealth management products	—	—	179,854	179,854

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 years ended 31 December 2022 and 2021.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the years ended 31 December 2022 and 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.

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 CODM in deciding how to allocate resources and assess performance. The Group's CODM has been identified as the Board of Directors, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group.

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

As a result of evaluation by CODM, the CODM considers that the Group is operated and managed as a single operating segment of private education services for the year ended 31 December 2022.

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Recognised over time		
— Private education services and others	<u>402,082</u>	<u>831,725</u>

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 year.

6. OTHER INCOME — NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Sub-lease — net (a)	1,180	871
Rental income from operating leases	3,022	2,293
Goods sales	1,154	—
Finance income	476	2,437
Government grants (b)	4,785	16,889
Others	<u>—</u>	<u>30</u>
	<u>10,617</u>	<u>22,520</u>

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

(b) Government grants include VAT exemption. VAT exemption amounted to nil (2021: RMB15,259,000) was recognised in the consolidated statement of comprehensive income due to the VAT exemption caused by COVID-19 pandemic, since Cai Shui 2020 No.8 extended the period of VAT exemption from calendar year 2020 to 2021.

7. OTHER GAINS/(LOSSES) — NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Fair value losses on financial assets at FVPL	(1,610)	(24,192)
Fair value losses on investment properties	(1,380)	(900)
Gains on disposal of a subsidiary	3,006	—
Lease modification (a)	6,301	42,271
Net losses on disposals of property, plant and equipment and intangible assets	(2,114)	(64,350)
Deposits losses	(1,137)	(10,949)
Compensation charges	(520)	(3,144)
Net foreign exchange gains/(losses)	320	(1,809)
Others	178	(2,822)
	<u>3,044</u>	<u>(65,895)</u>

- (a) Based on the principles set out in the “Opinion on Further Easing the Workload of Students in Compulsory Education and Burden of After-school Tutoring” published by the General Office of the Chinese Communist Party and the General Office of the State Council of the PRC (“**Opinions on Double Reduction**”) in July 2021, the Group ceased operating certain learning centres that do not meet the key operating parameters as originally envisaged.

8. EXPENSES BY NATURE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Employee benefit expenses	260,826	470,721
Depreciation and amortisation	56,837	155,086
Teaching materials	7,538	24,009
Property management expenses	6,435	13,590
Renting expenses	5,189	3,027
Professional service fees	3,767	3,718
Maintenance cost	3,426	7,452
Utilities	3,369	8,964
Advertising and exhibition expenses	3,256	7,584
Other taxes	2,930	5,021
Office expenses	2,723	6,730
Software usage fees	2,112	1,001
Auditors' remuneration		
— Audit services	1,892	1,923
— Non-audit services	951	693
Entertainment and activities expenses	587	1,425
Travel and transportation	421	1,148
Recruitment expenses	250	1,266
Rent concession related to COVID-19	(1,310)	(2,340)
Allowance for impairment	(398)	5,912
Impairment provisions on property, plant and equipment	—	24,681
Others	5,929	12,156
	<u>366,730</u>	<u>753,767</u>

9. FINANCE COSTS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest expenses on bank borrowings	357	1,911
Interest expenses on lease liabilities	6,346	27,074
	<u>6,703</u>	<u>28,985</u>

10. INCOME TAX CREDIT/(EXPENSE)

	2022 RMB'000	2021 RMB'000
Current tax		
— Current tax on profits for the year	(4,004)	8,637
Deferred income tax		
— (Decrease)/increase in deferred income tax	<u>(7,543)</u>	<u>23,973</u>
Income tax (credit)/expense	<u>(11,547)</u>	<u>32,610</u>

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) for the year by the weighted average number of ordinary shares in issue for the year.

	2022	2021
Earnings/(loss) attributable to equity holders of the Company (in RMB thousands)	<u>54,411</u>	<u>(26,611)</u>
Weighted average number of ordinary shares in issue (thousand shares) (i)	555,700	551,181
Basic earnings/(loss) per share (expressed in RMB cents per share)	<u>9.79</u>	<u>(4.83)</u>

(i) Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2022 and 2021.

(b) Diluted earnings/(loss) per share

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

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

	2022	2021
Diluted earnings/(loss) per share (expressed in RMB cents per share)	<u>9.79</u>	<u>(4.83)</u>

Weighted average number of shares used as the denominator

	2022	2021
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/(loss) per share	555,700,000	551,181,000
Adjustments for calculation of diluted earnings/(loss) per share:		
Share options*	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings/(loss) per share	<u>555,700,000</u>	<u>551,181,000</u>

* As at 31 December 2022, the Company did not have any potential dilutive shares throughout the current reporting period. Accordingly, diluted earnings per share are the same as the basic earnings per share.

12. RIGHT-OF-USE ASSETS AND LEASES**(a) Amounts recognised in the consolidated balance sheet**

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Right-of-use assets*		
Land use rights**	45,300	59,043
Properties	<u>90,595</u>	<u>120,345</u>
	<u>135,895</u>	<u>179,388</u>
Lease liabilities		
Current	34,169	32,804
Non-current	<u>82,764</u>	<u>119,592</u>
	<u>116,933</u>	<u>152,396</u>

* Additions to the right-of-use assets during the year ended 31 December 2022 was RMB33,746,000 (for the year ended 31 December 2021: RMB64,558,000).

** The Group has land lease arrangement with mainland China government. The pre-paid land lease rights was recorded in land use rights and reclassified as right-of-use assets under IFRS 16.

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

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets		
— Properties	42,482	100,499
— Land use rights	<u>1,800</u>	<u>2,409</u>
	<u><u>44,282</u></u>	<u><u>102,908</u></u>
Interest expense (included in finance costs)	6,346	27,074
Expense relating to short-term leases (included in administrative expenses and cost of sales)	<u>5,189</u>	<u>3,027</u>

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

For the year ended 31 December 2022, the cash outflows from financing activities for leases was RMB40,557,000 (for the year ended 31 December 2021: RMB102,248,000) and cash outflows from operating activities for short-term lease was RMB5,189,000 (for the year ended 31 December 2021: RMB3,027,000).

(d) Rent concessions related to COVID-19

For the year ended 31 December 2022, the rent concessions related to COVID-19 was RMB1,310,000 (for the year ended 31 December 2021: RMB2,340,000).

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 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<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>

14. DIVIDENDS

	2022 <i>HKD'000</i>	2021 <i>HKD'000</i>
Interim dividends paid per share: nil (2021: HK\$0.10)	—	55,570
Special dividends per share: nil (2021: HK\$0.15)	<u>—</u>	<u>83,355</u>
	<u>—</u>	<u>138,925</u>
Proposed final dividends per share: nil (2021: nil)	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (for the year ended 31 December 2021: nil).

For the year ended 31 December 2021, the Company declared and paid the final dividends amounting to HK\$66,684,000 (equivalent to RMB54,918,000), the interim dividends amounting to HK\$55,570,000 (equivalent to RMB45,812,000) and special dividends amounting to HK\$83,355,000 (equivalent to RMB68,151,000).

15. TRADE AND OTHER PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current		
Trade payables (a)	1,281	1,948
Employee benefits payables	57,141	42,506
Other taxes payables	13,927	11,412
Interest payables	—	89
Lease payment in advance	40	60
Other payables	<u>11,042</u>	<u>24,926</u>
	<u>83,431</u>	<u>80,941</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 3 months.

As at 31 December 2022 and 2021, the aging analysis of trade payables based on the invoice date was as follows:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
3 months or less	1,233	723
3 to 6 months	—	993
6 months to 1 year	48	232
	<u>1,281</u>	<u>1,948</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Overview

The principal business of the Group has remained profitable and recorded an increase in operating profit in 2022. The Group has strived to promote business transformation, and has launched non-academic literacy programmes since autumn 2021, including science literacy, Le Xue and Guo Xue (樂學國學), logic training, Miaowei international literacy (妙維國際素養) and other courses, which have shown promising results. During the year ended 31 December 2022, the Group's revenue from literacy programmes increased to RMB369.8 million from RMB196.0 million, and its tutoring hours increased to 4,282,148 hours from 2,314,289 hours, as compared to last year. Our literacy programmes have gained a high level of recognition from students and parents as they placed more emphasis on training children's ability to take initiatives and enhancing their deep thinking skills to achieve their overall development through the integration of learning and thinking.

In order to improve operational efficiency and to carry out the strategic plan of business transformation, the Group closed some of its learning centres in the second half of last year that did not meet its expected key performance indicators, resulting in a decrease in the Group's total revenue as compared with the last year. During the year ended 31 December 2022, the Group's revenue had decreased to RMB402.1 million, representing a decrease of 51.7% as compared to the last year. For the year ended 31 December 2022, the Group recorded a net profit attributable to equity holders of RMB54.4 million, as compared to a net loss attributable to equity holders of RMB26.6 million for the year ended 31 December 2021. It was mainly attributable to (i) the Group had not incurred one-off costs due to closure of certain learning centres as it had last year, and (ii) the decrease in fair value loss on financial assets as compared with the last year.

Future Prospects and Development Strategies

The Group has been exploring new business opportunities. The Group entered the brand new live commerce business at the end of 2022, and launched its first live streaming account, "Scholar GO" (思考樂GO), on the Douyin platform. This was a new attempt by the Group to tap into the new consumption industry. The slogan of "Scholar GO" (思考樂GO) is "Building a better life, all in Scholars GO! (構建美好生活，盡在思考樂GO!)". The Group expects to create an e-commerce platform making use of fun facts to sell products, providing high-quality and cost-effective products, with an aim to improve customers' quality of life. Leveraging the advantages of its brand, technology and resources and the existing talent, the Group will collaborate with top e-commerce and new media partners in the industry to develop a live-streaming e-commerce knowledge based sales team with distinctive South China characteristics and established supply chain and anchors. The Group believes that the live commerce business will broaden the revenue base of the Group and contribute to its long-term development.

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

We will strive to promote the diversified development of the Group throughout all aspects in the future by leveraging our brand influence and reputation, as well as the extensive management experience and industry knowledge of the management team, in order to broaden the revenue base and maximise returns for the shareholders of the Company. In addition, we will continue to employ stringent cost control measures to maintain a sound cash flow of the Company. We will also develop technology to continuously enhance the quality of our services and operational efficiency to support the long-term development of the Group.

Financial Review

1. Revenue

	Year ended 31 December		Percentage Change
	2022 RMB'000	2021 RMB'000	
Non-academic literacy programme and others	369,795	195,973	88.7%
Academic education programme	<u>32,287</u>	<u>635,752</u>	(94.9)%
Total	<u>402,082</u>	<u>831,725</u>	(51.7)%

The following table sets forth the student enrollments and tutoring hours delivered under the Group's non-academic literacy programme and academic education programme for the years indicated based on the Group's internal records:

	Year ended 31 December				Percentage Change	
	2022		2021			
	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours		
Non-academic literacy programme	173,016	4,282,148	57,207	2,314,289	202.4%	85.0%
Academic education programme	<u>14,765</u>	<u>363,240</u>	<u>249,826</u>	<u>7,206,158</u>	(94.1)%	(95.0)%
Total	<u>187,781</u>	<u>4,645,388</u>	<u>307,033</u>	<u>9,520,447</u>	(38.8)%	(51.2)%

The Group's revenue decreased by 51.7% from RMB831.7 million for the year ended 31 December 2021 to RMB402.1 million for the year ended 31 December 2022. This decrease was primarily due to decreases in the total student enrolments and tutoring hours, which was primarily because of the decrease of the total number of the Group's learning centres for the year ended 31 December 2022.

2. Cost of sales

The Group's cost of sales decreased by 49.0% from RMB516.7 million for the year ended 31 December 2021 to RMB263.4 million for the year ended 31 December 2022. This decrease was primarily due to (i) decreases in teacher compensation and teaching materials primarily attributable to the decrease in revenue, (ii) decreases in amortisation of right-of-use assets and property management fee as a result of the decrease of the total number of the Group's learning centres for the year ended 31 December 2022.

3. *Gross profit and gross profit margin*

As a result of the foregoing, the Group's gross profit decreased by 56.0% from RMB315.0 million for the year ended 31 December 2021 to RMB138.7 million for the year ended 31 December 2022. The gross profit margin of the Group decreased from 37.9% for the year ended 31 December 2021 to 34.5% for the year ended 31 December 2022.

4. *Selling expenses*

The Group's selling expenses decreased by 65.6% from RMB13.6 million for the year ended 31 December 2021 to RMB4.7 million for the year ended 31 December 2022. The decrease was primarily due to the decreases in advertising and exhibition expenses, customer service personnel expenses and entertainment expenses relating to business activities.

5. *Administrative expenses*

The Group's administrative expenses decreased by 51.5% from RMB170.1 million for the year ended 31 December 2021 to RMB82.4 million for the year ended 31 December 2022. This decrease was mainly due to (i) the decreases in administrative personnel expenses, depreciation and amortisation, and office expenses, and (ii) the absence of an impairment provision on property, plant and equipment of RMB24.7 million provided for the year ended 31 December 2021.

6. *Research and development expenses*

The Group's research and development expenses decreased by 69.6% from RMB53.4 million for the year ended 31 December 2021 to RMB16.2 million for the year ended 31 December 2022. The decrease was primarily due to the decrease in research and development personnel expenses.

7. *Other income — net*

The Group's other income decreased by 52.9% from RMB22.5 million for the year ended 31 December 2021 to RMB10.6 million for the year ended 31 December 2022. This decrease was primarily due to (i) a decrease of RMB12.1 million in government grants in relation to the government's measures to provide relief for the economic impact of the COVID-19 pandemic and (ii) a decrease in finance income of RMB2.0 million. The decrease was partially offset by increases in sub-lease income and rental income from operating leases.

8. *Other gains/(losses) — net*

The Group recorded other net gains of RMB3.0 million for the year ended 31 December 2022 as compared with the other net losses of RMB65.9 million for the year ended 31 December 2021, primarily attributable to: (i) a decrease of RMB62.2 million in net losses on disposal of property, plant and equipment, (ii) a decrease in fair value losses on financial assets at fair value through

profit or loss of RMB22.6 million, (iii) a decrease in deposits losses of RMB9.8 million; and (iv) a decrease in compensation charges of RMB2.6 million. The decrease was partially offset by a decrease of RMB36.0 million in lease modification.

9. *Finance costs*

The Group's finance costs decreased by 76.9% from RMB29.0 million for the year ended 31 December 2021 to RMB6.7 million for the year ended 31 December 2022, primarily due to a decrease in interest expenses on borrowings of RMB1.6 million and in lease liabilities of RMB20.7 million.

10. *Profit before income tax*

As a result of the foregoing, the Group's profit before income tax increased by 655.8% from RMB5.6 million for the year ended 31 December 2021 to RMB42.3 million for the year ended 31 December 2022.

11. *Income tax credit/(expense)*

The Group recorded an income tax credit of RMB11.5 million for the year ended 31 December 2022 as compared to income tax expense of RMB32.6 million recorded for the year ended 31 December 2021. The income tax credit was primarily due to the recognition of deferred tax assets.

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

As a result of the foregoing, the Group recorded a profit for the year attributable to equity holders of RMB54.4 million for the year ended 31 December 2022 as compared with the loss for the year attributable to equity holders of RMB26.6 million for the year ended 31 December 2021.

Liquidity, Financial Resources and Capital Structure

The total equity of the Group as at 31 December 2022 was RMB371.4 million (2021: RMB317.5 million). The Group generally finances its operation with internally generated cash flows. As at 31 December 2022, the Group's cash and cash equivalents increased by 26.6% from RMB236.0 million as at 31 December 2021 to RMB298.7 million. The increase of cash and cash equivalents for the year ended 31 December 2022 was primarily attributable to the net cash inflow from operating activities. As at 31 December 2022, the current assets of the Group amounted to RMB432.6 million, including RMB117.3 million (2021: RMB155.7 million) in financial assets at fair value through profit or loss, and RMB298.8 million (2021: RMB236.2 million) in bank balances and cash and other current assets of RMB16.6 million (2021: RMB11.4 million). The current liabilities of the Group amounted to RMB300.8 million (2021: RMB323.4 million), of which RMB181.5 million (2021: RMB176.3 million) are contract liabilities, RMB34.2 million (2021: RMB32.8 million) in lease liabilities, and RMB85.1 million (2021: RMB84.4 million) are other payables and accruals. The Group did not have bank borrowings as at 31 December 2022. As at 31 December 2021, the Group had RMB30.0 million bank borrowings, all of which were denominated in RMB and wholly repayable within one year. The

Group's gearing ratio as at 31 December 2022 was 0% (2021: 9.4%), based on the interest bearing bank borrowings and the equity attributable to the Shareholders. As at 31 December 2022, the Group had net current assets of RMB131.9 million (2021: RMB79.9 million).

Treasury Management Policy

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

Foreign Exchange Exposure

The majority of the Group's revenue and expenditures are denominated in RMB. Most of the cash and bank deposits of the Group as at 31 December 2022 and 2021 were denominated in RMB. 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.

Contingencies

As at 31 December 2022, 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 (2021: nil).

Pledge of Assets

The Group did not have any pledge of assets as at 31 December 2022 and 2021.

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 year ended 31 December 2022. 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 31 December 2022, 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 31 December 2022.

Save as disclosed in this announcement, the Group did not have any plans for significant investments as at 31 December 2022.

Employees and Remuneration Policies

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

The Group employed a total work force of 1,350 employees as at 31 December 2022 (2021: 1,552 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 concerned. The Group has been constantly reviewing staff remuneration package to ensure it is competitive in the market.

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (for the year ended 31 December 2021: nil).

Subsequent Events

There were no significant events affecting the Group after 31 December 2022.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Public Float

Based on the information publicly available to the Company, the Company continues to meet the prescribed public float under the Listing Rules.

SCOPE OF WORK ON THIS ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this annual results announcement have been agreed by the Group's auditor, Messrs. PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. PricewaterhouseCoopers on this annual results announcement.

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 the Shareholders and to enhance corporate value and accountability.

1. Compliance with the CG Code on Corporate Governance Practices

For the year ended 31 December 2022, the Company had 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 year ended 31 December 2022.

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 of the Board has reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters with management including a review of the consolidated financial statements and annual results for the year ended 31 December 2022 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 for the year ended 31 December 2022.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.skledu.com. The annual report of the Group for the year ended 31 December 2022 will be published on the aforesaid websites and will be dispatched to the Company's shareholders in due course.

DEFINITIONS

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

“Board”	the board of Directors
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Company”, “we” or “us”	Scholar Education Group, a company incorporated in the Cayman Islands on 7 February 2018
“Director(s)”	the director(s) of the Company
“Group”	the Company with its subsidiaries and consolidated affiliated entities
“IFRS”	International Financial Reporting Standards, as issued by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“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, 30 March 2023

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

Executive Directors

Mr. Chen Qiyuan (*chairman*)

Mr. Qi Mingzhi (*chief executive officer*)

Ms. Li Ailing

Ms. Leng Xinlan

Independent non-executive Directors

Mr. Huang Victor

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.