思考乐教育

思考樂教育集團

Scholar Education Group

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1769

Interim Report 2019

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CORPORATE INFORMATION

Board of Directors

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

Independent Non-executive Directors

Mr. Huang Victor
Dr. Liu Jianhua
Mr. Yang Xuezhi

Audit Committee

Mr. Huang Victor *(Chairman)*
Dr. Liu Jianhua
Mr. Yang Xuezhi

Remuneration Committee

Dr. Liu Jianhua *(Chairman)*
Mr. Chen Qiyuan
Mr. Huang Victor

Nomination Committee

Mr. Chen Qiyuan *(Chairman)*
Dr. Liu Jianhua
Mr. Huang Victor

Strategic Development Committee

Mr. Chen Qiyuan *(Chairman)*
Mr. Shen Jing Wu
Mr. Qi Mingzhi
Mr. Yang Xuezhi

Authorised Representatives

Mr. Qi Mingzhi
Mr. So Wai Hang

Company Secretary

Mr. So Wai Hang

Legal Advisers

As to Hong Kong law:
Allen & Overy
9/F, Three Exchange Square
8 Connaught Place, Central
Hong Kong

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Auditors

PricewaterhouseCoopers
22/F, Prince's Building
Central
Hong Kong

Compliance Adviser

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PRC

Principal Place of Business in Hong Kong

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Principal Share Registrar and Transfer Office

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Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Share Registrar

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Juhaoyuan
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Shenzhen Jinfu Branch
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PRC

Company's Website

http://www.skledu.com

Stock Code

1769

Date of Listing

21 June 2019

To: Shareholders

On behalf of the Board, I am pleased to present this interim results report of the Group for the six months ended 30 June 2019.

Results and Dividends

The year 2019 marks a very important year for the development of the Group. The Company was listed on the Main Board of the Stock Exchange on 21 June 2019. The entry into capital market blazed a new path of capitalisation and internationalisation and brought new development opportunities for the Group. The Group will seize such opportunities to further enhance its brand influence. The Group will also recruit, train and retain high-quality teaching and research professionals, expand its strategic network layout in the Greater Bay Area, increase its market share, and generate the best returns for the Shareholders.

The financial performance for the six months ended 30 June 2019 was encouraging. The Group's revenue increased by 25.2% to RMB295.5 million; the gross profit increased by 47.4% to RMB127.9 million; and the adjusted operating profit from continuing operations increased by 63.2% to RMB60.2 million, each as compared to the same period last year.

The Board has resolved to declare an interim dividend of HK$0.02 per Share for the six months ended 30 June 2019 and a special dividend of HK$0.04 per Share to shareholders of the Company. The interim dividend and special dividend are expected to be paid on or about 15 October 2019 to those shareholders on the register of members on 11 September 2019.

Business review

As one of the top five K-12 after-school education service providers in Guangdong Province, the Group achieved its fastest compound annual growth rate in terms of revenue in the period from 2015 to 2018. The Group's business maintained a sound growth over the past six months. The number of the Group's learning centres had increased from 54 as at 31 December 2018 to 64 as at 30 June 2019. In addition, 18 learning centres are in the final stage of preparation and will be put into operation during the autumn and winter vacation in 2019.

As at 30 June 2019, the number of student enrolments in the regular courses was 115,669, representing a 25.2% increase from 92,355 as at 30 June 2018. Meanwhile, the Group's tutoring hours for the six months ended 30 June 2019 increased to 3,703,607, representing an increase of 21.1% as compared with 3,059,110 for the same period last year. In addition, the Group's average tuition fee per tutoring hour also increased by 3.4% from RMB77.2 for the six months ended 30 June 2018 to RMB79.8 for the six months ended 30 June 2019, which substantially improved the profitability of the Group.

Future prospects and development strategies

The CPC Central Committee and the State Council of the PRC released the "Opinions Concerning Support for Shenzhen to Establish an Advanced Demonstration Zone for Socialism with Chinese Characteristics" (關於支持深圳建設中國特色社會主義先行示範區的意見) (the "Opinions") on 18 August 2019. The Opinions identified the strategic position of Shenzhen, including, among others, improving the educational development level, supporting Shenzhen to establish an advanced demonstration zone for socialism with Chinese characteristics by upholding the reform and opening up initiative in the new era, and set the development goals of Shenzhen, including ranking in the list of global leading cities in terms of economic strength and development quality, becoming "world-class" regarding investment in research and development as well as capacity for industrial innovation, strengthening the cultural soft power largely, improving the public services and the quality of ecosystems and the environment to achieve the international advanced level by 2025, as well as becoming the national model city by 2035 with world leading integrated economic competitiveness and the centre of innovation, entrepreneurship and originality with global influence, and finally being a global "Model City" with outstanding competitiveness, innovation and influence. The Group views the release of the Opinions as a milestone of entering in to a new era with profound influence. As an enterprise started up in Shenzhen, the Group aims to capture the important opportunities emerging from the development of Greater Bay Area and follow the national development strategy actively to expand market presence and operations in the Greater Bay Area rapidly.

The Group's basic education philosophy is "Focus on academic excellence to enable our students to achieve their aspirations" (博學精教，成就學生). As one of the top five K-12 after-school education service providers in Guangdong Province, the Group is committed to providing quality tutoring education to students by adopting a student-centred approach. In addition to improving students' academic performance, the Group commits efforts to fostering gratitude, tenacity and social awareness in students and helping them develop healthy personalities.

The Group aims to maintain and consolidate its leading position in the K-12 after-school education market in Guangdong Province and will achieve its goals and further develop its business using the following strategies:

1. Deepening the penetration into Shenzhen market and expanding the Group's geographical coverage in the Greater Bay Area

The after-school education service market in Guangdong Province is highly fragmented. In terms of revenue in 2018, the total market share of the top five service providers was less than 10.0%. The fragmented market provides opportunities for those quality service providers with strong track records and brand reputation to attract and retain more students, whilst increasing and maintaining their existing market share. Since government policies imposed strict regulations on after-school education service providers last year, including regulations on the school's qualifications and facilities, well-developed service providers such as the Group are in a good position to gain market share from smaller players who fail to meet such strict regulations and may therefore be eliminated from the market. The Group is highly recognised by students and parents in the Shenzhen, Dongguan, Foshan and Huizhou markets. The Group is also well-positioned to take advantage of the growth opportunities offered by the Greater Bay Area. The Group plans to expand its business to cities with huge market potentials and relatively mild competition, and our Directors believe that the Group can replicate the success it has achieved in Shenzhen to more areas such as the Greater Bay Area and Fujian Province. The Group has established the "Dual Teacher Department", and the "Scholar Dual Teacher Class" is expected to be launched by the autumn of 2019. The "Scholar Dual Teacher Class" adopts a pattern of teaching that a prominent teacher gives lessons by live broadcasting and a counselor answers questions offline. Such two teachers jointly accomplish teaching tasks in a long-distance way by utilising internet interactive live broadcast technologies. All dual-teacher classes are given by the Group's best, most experienced and leading teachers and star teachers. Students are able to engage interactive learning with teachers in a "face-to-face" way via the answerers and other interactive methods. The Dual Teacher Class greatly mitigates the lack of qualified teachers and also offers more opportunities for students to enjoy classes given by prominent teachers. It is expected that such operation mode shall assume more advantage in second- and third-tier cities.

2. Carrying out strategic development of the "Scholar Wangxiao" app (思考樂網校)

With the mission of improving the learning quality of students and adapting to the development trend of future education, the Group developed the "Scholar Wangxiao" app to complement its offline business. Such mobile application was developed by the Group to offer free tutoring videos and digital materials and is a strategic level product that complements the competitive advantages of the Group, such as talent, teaching, research and branding. Currently, Scholar Wangxiao is in a trial operation phase and mainly provides online K-12 value-added services to more than 100,000 students in offline courses. Upholding a teaching concept substantially different from conventional classes, the Group adopts a mixed online and offline teaching system and performs teaching services through high-quality recorded and broadcasted classes and short classes. The Group selects 100 top teachers from its over 1,000 teachers to create quality courses for Scholar Wangxiao. This team mainly consists of teachers graduated from well-known universities such as Tsinghua University, Peking University and other "Project 985 universities". The Directors believe that Scholar Wangxiao will gradually develop into a high-quality online education platform with extensive influence across the PRC, beginning in the south China region.

3. Continuing to optimise and enrich the Group's service offerings as well as developing applications and digital materials

The use of technology in the K-12 after-school education service market has become an industry trend in the PRC. It can provide students and parents with convenient online value-added services and seamless offline and online learning experiences. The Group will continue to optimise and enrich its service offerings to broaden its student base and to increase profitability.

The Group will continue to invest further in, and recruit more people for, research and development. The Group will also focus on developing new teaching materials, as well as improving and updating its existing materials. For example, the Group launched the artificial intelligence STEAM education programme for young children, a program designed to introduce students to artificial intelligence technology, which the Directors expect will increase the Group's source of income. Meanwhile, the Group will further customise and digitalise its teaching process by integrating certain courses and existing classroom education programmes with digital platforms, which provide students with a better learning experience and enhance their academic achievement. The Group will use its digital materials to enhance students' understanding of the course materials.

4. Continuing to attract and retain key teachers and improving their teaching skills and productivity

The quality of the Group's after-school education services depends largely on its teachers. The Group will continue to attract and retain qualified teachers, enhance the overall quality of its staff and build a quality team. The Group will try to identify opportunities to work with local and overseas experts in the education sector, enhance the teaching skills of the Group's teachers through sharing sessions and training, and further strengthen the Group's teacher partnership system to attract outstanding teachers.

5. Planning to grant share options to the management of the Group to incentivise them for their future contributions

The Company adopted a share option scheme on 3 June 2019. The Company plans to grant share options to the school principals and the senior management of the Group under the share option scheme to incentivise them for their future contributions to the Group and to attract and retain suitable personnel in the Group.

6. Further developing and promoting support services such as admission guidance

In light of the fierce competition in the admission process of junior high schools, senior high schools and universities in the PRC, there is a strong demand for value-added services such as admission guidance. With the Group's market research and extensive academic preparation service experience, the Group is familiar with the admission criteria and procedures of the key junior high schools and senior high schools in Shenzhen as well as the well-known "Project 985 universities" and "Project 211 universities". The Group will step up its efforts to provide students and their parents with a wide range of seminars to help students choose suitable schools, such as seminars targeted at Zhongkao candidates on the application process for senior high school, seminars targeted at grade 6 students on the key features of local junior high schools and seminars analysing overseas schools. These formal and informal admission guidance services will enhance the Group's communication and interaction with students and their parents.

7. Optimising network operation and management of the learning centres to improve operational efficiency

The Group regularly monitors and evaluates its needs for teaching staff for particular regions and subjects to ensure it has adequate teaching resources at all learning centres. The Group plans to increase the utilisation of facilities at its learning centres. Meanwhile, the Group will strengthen its "Scholar Cloud Platform" (思考樂雲平台) to reduce the teaching burden of teachers, enabling them to work in a more efficient way. By optimising the Group's student registration system, office management system and school inspection system, the Group provides digital and computerised means to manage learning centres and students.

Acknowledgement

Finally, on behalf of the Board, I would like to express my sincere gratitude to our students and parents, as well as to the management and all staff members of the Group for giving full play to our core values of "diligence, responsibility, reverence, gratitude, efficiency, selflessness, unity and teamwork" (勤儉擔當，敬畏感恩，高效忘我，團結共贏). I would also like to express my thanks to all Shareholders, local governments and business partners for their support to, and trust in, the Board and the management of the Group. We will continue our efforts to strengthen our business and improve returns to the Shareholders.

Chen Qiyuan
Chairman of the Board

23 August 2019

羅兵咸永道

TO THE BOARD OF DIRECTORS OF SCHOLAR EDUCATION GROUP

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 9 to 40, which comprises the interim condensed consolidated balance sheet of Scholar Education Group (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Accounting Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2019

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 30 June 2019 RMB'000	 2018 RMB'000
Continuing operations			
Revenue	7	**295,477**	236,023
Cost of sales	10	**(167,591)**	(149,253)
Gross profit		**127,886**	86,770
Selling expenses	10	**(6,475)**	(4,607)
Administrative expenses	10	**(63,490)**	(32,544)
Research and development expenses	10	**(15,764)**	(13,451)
Other income	8	**2,422**	1,998
Other gains — net	9	**6,577**	3,738
Operating profit		**51,156**	41,904
Finance costs	11	**(10,711)**	(2,001)
Profit before income tax		**40,445**	39,903
Income tax expense	12	**(6,972)**	(5,944)
Profit for the period from continuing operations		**33,473**	33,959
Discontinued operation			
Profit before income tax		**—**	762
Income tax expense	12	**—**	(518)
Gains on disposal of subsidiaries after income tax	14	**—**	2,363
Profit for the period from discontinued operation		**—**	2,607
Profit and total comprehensive income for the period		**33,473**	36,566

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 30 June 2019 RMB'000	 2018 RMB'000
Profit/(loss) and total comprehensive income attributable to:			
— Equity holders of the Company		**33,473**	36,699
— Non-controlling interests		**—**	(133)
		33,473	36,566
Profit for the period attributable to owners of the Company arises from:			
— Continuing operations		**33,473**	33,959
— Discontinued operations		**—**	2,740
		33,473	36,699
Earnings per share (expressed in RMB cents per share)			
— Continuing operations: Basic and diluted earnings per share	13	**7.66**	8.23
— Discontinued operations: Basic and diluted earnings per share	13	**—**	0.66
		7.66	8.89

The accompanying notes on pages 17 to 40 form an integral part of the interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited As at 30 June 2019 RMB'000	Audited As at 31 December 2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	15	**126,921**	106,134
Land use rights	16	**—**	39,352
Right-of-use assets	16	**342,727**	—
Intangible assets	17	**1,053**	1,076
Prepayments and other receivables	18	**22,971**	46,233
Deferred tax assets		**15,968**	13,478
Total non-current assets		**509,640**	206,273
Current assets			
Prepayments and other receivables	18	**24,023**	21,771
Financial assets at fair value through profit or loss	19	**178,322**	205,084
Term deposits with original maturity over 3 months	20	**—**	10,500
Cash and cash equivalents	20	**420,891**	37,200
Total current assets		**623,236**	274,555
Total assets		**1,132,876**	480,828
Equity			
Share capital	21	**3,775**	339
Share premium	22	**416,964**	52,897
Other reserves	22	**32,664**	32,664
Retained earnings		**62,792**	29,319
Total equity		**516,195**	115,219
Liabilities			
Non-current liabilities			
Deferred operating lease liabilities	25	**—**	12,969
Borrowings	26	**24,740**	26,386
Lease liabilities	4	**228,112**	—
Total non-current liabilities		**252,852**	39,355

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited As at 30 June 2019 RMB'000	Audited As at 31 December 2018 RMB'000
Current liabilities			
Contract liabilities	24	**178,551**	214,701
Lease liabilities	4	**72,161**	—
Trade and other payables	25	**86,378**	85,958
Current income tax liabilities		**5,138**	9,222
Borrowings	26	**21,601**	16,373
Total current liabilities		**363,829**	326,254
Total liabilities		**616,681**	365,609
Total equity and liabilities		**1,132,876**	480,828

The accompanying notes on pages 17 to 40 form an integral part of the interim condensed consolidated financial information.

		Unaudited				
		Attributable to owners of Company				
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2019		**339**	**52,897**	**32,664**	**29,319**	**115,219**
Profit for the period		—	—	—	33,473	33,473
Total comprehensive income for the period		**339**	**52,897**	**32,664**	**62,792**	**148,692**
Transactions with owners:						
Capital injection from shareholders						
Share issued pursuant to the Listing	21, 22	855	402,196	—	—	403,051
Issue of shares pursuant to the Capitalisation	21	2,581	(2,581)	—	—	—
Listing expense charged to share premium	22	—	(35,548)	—	—	(35,548)
Balance at 30 June 2019		**3,775**	**416,964**	**32,664**	**62,792**	**516,195**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited						
		Attributable to owners of Company						
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018		—	—	26,027	(1,100)	24,927	(3,712)	21,215
Profit for the period		—	—	—	36,699	36,699	(133)	36,566
Total comprehensive income for the period		—	—	26,027	35,599	61,626	(3,845)	57,781
Transactions with owners:								
Capital injection from shareholders								
Incorporation of the Company	21	315	—	—	—	315	—	315
Issuance of new shares	21, 22	24	106,728	—	—	106,752	—	106,752
Dividends paid	23	—	—	—	(35,158)	(35,158)	—	(35,158)
Disposals of subsidiaries	14	—	—	—	—	—	3,845	3,845
Balance at 30 June 2018		339	106,728	26,027	441	133,535	—	133,535

The accompanying notes on pages 17 to 40 form an integral part of the interim condensed consolidated financial information.

	Notes	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations		**39,689**	22,108
Interest received		**415**	42
Interest paid		**(1,285)**	(2,001)
Income taxes paid		**(13,546)**	(10,422)
Net cash inflow generated from operating activities		**25,273**	9,727
Cash flows from investing activities			
Payments for property, plant and equipment, land use rights and intangible assets		**(33,194)**	(8,793)
Proceeds from disposal of property, plant and equipment		**147**	119
Proceeds from term deposits with initial maturities over three months		**10,500**	—
Payments for purchase of financial assets at fair value through profit or loss	19	**(384,056)**	(452,150)
Proceeds from disposal of financial assets at fair value through profit or loss	19	**416,882**	503,571
Amounts due from shareholders		**—**	856
Cash outflow from disposals of subsidiaries		**—**	(1,544)
Net cash generated from investing activities		**10,279**	42,059
Cash flows from financing activities			
Proceeds from capital contribution	21, 22	**—**	106,752
Issuance of new shares pursuant to the Listing	21, 22	**403,051**	—
Payments for listing related expenses	10	**(20,143)**	(731)
Proceeds from borrowings		**10,000**	—
Repayment of borrowings		**(6,418)**	(20,693)
Dividends paid to shareholders	23	**—**	(35,158)
Amounts due from related parties		**315**	—
Repayment of amounts due to related parties		**—**	(3,370)
Principal elements of lease payments	16	**(38,666)**	—
Net cash generated from financing activities		**348,139**	46,800

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited Six months ended 30 June	
		2019	2018
	Notes	RMB'000	RMB'000
Net increase in cash and cash equivalents		**383,691**	98,586
Cash and cash equivalents at the beginning of the period		**37,200**	24,661
Cash and cash equivalents at end of the period		**420,891**	123,247

The accompanying notes on pages 17 to 40 form an integral part of the interim condensed consolidated financial information.

1. General Information

Scholar Education Group, formerly known as China Yuanfang (Holding) Group Corporation (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 on 23 August 2019 and has not been audited.

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 incorporated in Shenzhen, the PRC, and its subsidiaries (the "PRC Consolidated Affiliated Entities").

On 9 April 2018, FengYe (Shenzhen) Science and Technology Co., Ltd. (楓燁(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 Interim Financial Information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the annual consolidated financial statements for year ended 31 December 2018 ("2018 Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. Significant Accounting Policies

The accounting policies applied are consistent with those of the 2018 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 and the Group had to change its accounting policies and make retrospective adjustments, if applicable, as a result of adopting the following standards:

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

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

4. Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 4.1 below.

The Group applied the standard from its mandatory adoption date of 1 January 2019. The Group applied the simplified transition approach and not restate comparative amounts for the year prior to first adoption. Right-of-use assets were measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group applied the practical expedient to grandfather the definition of a lease on transition. This means that it applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with existing standard and interpretation.

4. Changes in Accounting Policies (Continued)

4.1 Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.15%.

	2019 RMB'000
Operating lease commitments as at 31 December 2018	**384,093**
Discounted using the lessee's incremental borrowing rate at the date of initial application/lease liability recognised as at 1 January 2019	**302,678**
Of which are:	
Current lease liabilities	**71,944**
Non-current lease liabilities	**230,734**
	302,678
Lease liability recognised as at 30 June 2019	**300,273**
Of which are:	
Current lease liabilities	**72,161**
Non-current lease liabilities	**228,112**
	300,273

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. All the recognised right-of-use assets relate to leased properties.

4. Changes in Accounting Policies (Continued)

4.1 Adjustments recognised on adoption of IFRS 16 (Continued)

The recognised right-of-use assets relate to the following types of assets:

	As at 30 June 2019 RMB'000	As at 1 January 2019 RMB'000
Properties	**293,506**	296,276
Land use rights	**49,221**	39,352
	342,727	335,628

(i) Impact on earnings before interest, tax, depreciation and amortisation ("EBITDA")

After the adoption of this policy, the adjusted EBITDA increased by approximately RMB41,336,000 for the six months ended 30 June 2019, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. As at 30 June 2019, the total assets and liabilities also increased approximately RMB278,103,000 and RMB282,072,000, respectively.

4.2 The Group's leasing activities and how these are accounted for

The Group is a lessee of certain teaching centres. Rental contracts are typically made for fixed periods of 1 to 12 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, all leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

4. Changes in Accounting Policies (Continued)

4.2 The Group's leasing activities and how these are accounted for (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

5. Estimates

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2018 Financial Statements.

6. Financial Risk Management

6.1 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.

This 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 2018 Financial Statements.

There have been no changes in the risk management function since 31 December 2018 or in any risk management policies since 31 December 2018.

6.2 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 utilizing bank financing. The directors consider the Group is not exposed to significant liquidity risk.

6. Financial Risk Management (Continued)

6.2 Liquidity risk (Continued)

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 2019					
Trade payables	**1,821**	**—**	**—**	**—**	**1,821**
Other payables	**39,152**	**—**	**—**	**—**	**39,152**
Lease liabilities	**77,012**	**80,221**	**170,025**	**25,626**	**352,884**
Borrowings	**23,281**	**4,554**	**13,659**	**10,623**	**52,117**
	141,266	**84,775**	**183,684**	**36,249**	**445,974**

	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 2018					
Trade payables	2,653	—	—	—	2,653
Other payables	15,019	—	—	—	15,019
Borrowings	18,243	4,553	13,660	12,899	49,355
	35,915	4,553	13,660	12,899	67,027

6.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2019 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).

6. Financial Risk Management (Continued)

6.3 Fair value estimation (Continued)

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

See Note 19 for disclosure of the financial assets at fair value through profit or loss(" FVPL").

Financial instruments at fair value as at 30 June 2019 were as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Financial assets at FVPL	**—**	**—**	**178,322**	**178,322**

Financial instruments at fair value as at 31 December 2018 were as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Financial assets at FVPL	—	—	205,084	205,084

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 2019.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the six months ended 30 June 2019.

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team 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. Major assumptions used in the valuation of financial assets at FVPL is presented in Note 19.

7. Revenue, Segment Information

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

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

As a result of evaluation by CODM, the CODM consider that the Group is operated and managed as a single operating segment of after-school education services for the months ended 30 June 2019.

The Group offered overseas test preparation services through Shenzhen America Education and Training Co., Ltd. ("Shenzhen America") (深圳市阿美睿卡教育培訓有限公司) and personalised tutoring services through Shenzhen Unique Education and Technology Development Co., Ltd. ("Shenzhen Unique") (深圳市優教優學教育科技發展有限公司), these two segments were disposed in 2018 and classified as discontinued operations (Note 14).

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

8. Other Income

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Sub-lease (a)		
— Sub-lease income	**7,102**	6,937
— Sub-lease expense	**(6,013)**	(5,550)
Finance income	**415**	41
Government grants	**918**	570
	2,422	1,998

(a) The Group sub-leases a portion of its teaching centres to Shenzhen Unique; the pricing of sub-lease income was determined with reference to the actual rental expense with a mark-up agreed by both parties.

9. Other Gains — Net

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Fair value gains on financial assets at FVPL	**6,064**	4,171
Net losses on disposal of property, plant and equipment	**(194)**	(340)
Net foreign exchange gains	**1,149**	—
Others	**(442)**	(93)
	6,577	3,738

10. Expenses by Nature

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Employee benefit expenses	**146,964**	129,180
Depreciation and amortisation	**50,005**	10,122
Listing expenses (i)	**22,856**	2,923
Teaching materials	**8,513**	6,628
Property management expense	**4,469**	3,104
Advertising and exhibition expense	**4,164**	2,575
Utilities	**2,132**	1,694
Office expenses	**2,021**	2,664
Maintenance cost	**1,558**	1,462
Entertainment expense	**1,208**	667
Taxes	**1,200**	890
Professional service fees	**948**	339
Travel and transportation	**918**	541
Auditor's remuneration	**500**	—
Recruitment expense	**343**	248
Rental expenses (ii)	**—**	34,532
Others	**5,521**	2,286
	253,320	199,855

(i) Listing expenses mainly include lawyers' fees, reporting accountant's fee, sponsor's fee and other related costs associated with the Listing. The total expenditure related to the Listing was RMB72,784,000, out of which RMB37,237,000 was recorded as administrative expenses (for the six months ended 30 June 2019: RMB22,856,000; for the six months ended 30 June 2018: RMB2,923,000) and RMB35,548,000 was recorded as a deduction against the share premium pursuant to the Listing (Note 22).

(ii) On adoption of IFRS 16, the Group recognised right-of-use asset in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 leases. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term o a straight-line basis.

11. Finance Costs

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Finance expenses		
— Interest expense on borrowings	**1,285**	2,001
— Interest expense on leasing liabilities (Note 16 (b))	**9,426**	—
	10,711	2,001

12. Income Tax Expense

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax		
— Current tax on profits for the year	**9,595**	9,218
Deferred income tax		
— Increase in deferred income tax	**(2,623)**	(2,756)
Income tax expense	**6,972**	6,462
Income tax expense is attributable to:		
— Continuing operations	**6,972**	5,944
— Discontinued operations	**—**	518
	6,972	6,462

12. Income Tax Expense (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities were as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit before income tax:		
— Continuing operations	**40,445**	39,903
— Discontinued operations	**—**	762
	40,445	40,665
Tax calculated at tax rates applicable to profit in the respective companies	**12,923**	10,167
Tax effects of:		
— Preferential tax policies (c)	**(4,988)**	(3,568)
— Expenses not deductible for tax purposes	**33**	7
— Research and development super deduction (d)	**(996)**	(472)
— Unrecognised tax losses	**—**	328
	6,972	6,462

(a) Cayman Islands corporate income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong profits tax

Subsidiaries in Hong Kong are subject to 16.5% income tax rate before 2018. Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK$2,000,000, and 16.5% on any part of assessable profits over HK$2,000,000. The payments of dividends by these companies to their shareholders are not subject to any Hong Kong withholding tax.

(c) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the reporting period, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen Scholar has obtained its qualification as a "High and New Technology Enterprise" ("HNTE") in December 2017, and it is subject to a reduced preferential EIT rate of 15% for 3-year period from 2017 to 2019 according to the relevant PRC laws and regulations applicable to the HNTE.

(d) Research and development super deduction

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses since 2018 so incurred as tax deductible expenses when determining their assessable profits for that year.

13. Earnings Per Share

(a) Basic earnings per share

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

	Six months ended 30 June	
	2019	2018
Earnings attributable to equity holders of the Company (in RMB thousands)		
— Continuing operations	**33,473**	33,959
— Discontinued operations	**—**	2,740
	33,473	36,699
Weighted average number of ordinary shares in issue (thousand shares) (i)	**436,976**	412,775
Basic earnings per share (expressed in RMB cents per share)		
— Continuing operations	**7.66**	8.23
— Discontinued operations	**—**	0.66
	7.66	8.89

(i) Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2019 and 2018. The weighted average number of ordinary shares has been retrospectively adjusted for the effects of the share split and Capitalisation issue as disclosed in Note 21 (d) and Note 21 (e) on the assumption that the share split and Capitalisation had been in effect on each beginning date of the earliest period reported.

(b) Diluted earnings per share

The Company did not have any potential dilutive shares throughout the reporting period. Accordingly, diluted earnings per share are the same as the basic earnings per share.

14. Discontinued Operations

In March 2018, Shenzhen Scholar entered into an equity transfer and debt arrangement agreement to dispose of Shenzhen America, pursuant to which Shenzhen Scholar transferred its 70% equity interest in Shenzhen America at a consideration of RMB1 and waived the amount due from Shenzhen America amounting to RMB3,913,000.

In April 2018, Shenzhen Scholar entered into an equity transfer to dispose of Shenzhen Unique, pursuant to which Shenzhen Scholar transferred 1%, 29% and 30% equity interest in Shenzhen Unique at a consideration of RMB1 each respectively.

(a) Details of the gains from disposal of Shenzhen America and Shenzhen Unique at the date of completion of the disposals are as follow:

	Shenzhen America RMB'000	**Shenzhen Unique** RMB'000	**Total** RMB'000
Net current liabilities	(1,782)	(25,438)	(27,220)
Non-current net assets	2,098	15,588	17,686
Net assets/(liabilities)	316	(9,850)	(9,534)
Accumulated non-controlling interests	(95)	3,940	3,845
	221	(5,910)	(5,689)
Consideration	—	—	—
Waiver of debts	(3,913)	—	(3,913)
Income tax effect of waiver of debts	587	—	587
(Loss)/gain on disposals	(3,547)	5,910	2,363

15. Property, Plant and Equipment

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
At the beginning of the period	**106,134**	116,665
Additions	**33,674**	12,286
Disposals	**(205)**	(136)
Disposals of subsidiaries	**—**	(17,686)
Depreciation charge	**(12,682)**	(10,823)
At the end of the period	**126,921**	100,306

As at 30 June 2019, the Group's buildings with net book amounts of RMB41,229,000 was pledged to a bank to secure certain banking borrowings of the Group (31 December 2018: RMB41,832,000).

16. Right-of-use Assets and Land Use Rights

(a) Right-of-use assets and Land use rights

	Right-of-use assets for			Land use
	Properties RMB'000	Lands RMB'000	Total RMB'000	rights RMB'000
Six months ended 30 June 2018				
At the beginning of the period	—	—	—	29,124
Additions	—	—	—	—
Amortisation	—	—	—	(408)
At the end of the period	—	—	—	28,716
Six months ended 30 June 2019				
As at 31 December 2018	**—**	**—**	**—**	**39,352**
Adjustment on adoption of IFRS 16 (Note 4)	**296,276**	**—**	**296,276**	**—**
Reclassify to right-of-use assets (Note 4)	**—**	**39,352**	**39,352**	**(39,352)**
At the beginning of the period	**296,276**	**39,352**	**335,628**	**—**
Additions	**33,860**	**10,414**	**44,274**	**—**
Amortisation/Depreciation	**(36,630)**	**(545)**	**(37,175)**	**—**
At the end of the period	**293,506**	**49,221**	**342,727**	**—**

16. Right-of-use Assets and Land Use Rights (Continued)

(a) Right-of-use assets and Land use rights (Continued)

As at 30 June 2019, the Group's right-of-use assets for lands with net book amounts of RMB27,900,000 was pledged to a bank to secure certain banking borrowings of the Group (31 December 2018: RMB28,308,000).

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

	Six months ended 30 June 2019 RMB'000
Depreciation charge of right-of-use assets	
— Properties	**36,630**
— Land use rights	**545**
	37,175
Finance costs on leases	**9,426**

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

For the six months ended 30 June 2019, the cash outflows from financing activities for leases was RMB38,666,000 and cash outflows from operating activities for short-term lease was nil.

17. Intangible Assets

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
At the beginning of the period	**1,076**	18
Additions	**262**	635
Disposals	**(136)**	—
Amortisation	**(149)**	(39)
At the end of the period	**1,053**	614

18. Prepayments and Other Receivables

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Included in non-current assets		
Lease deposits	**20,380**	17,486
Prepayments for leasehold improvements	**2,591**	5,747
Prepayments for rental expenses (a)	**—**	15,000
Prepayments for property, plant, equipment and land use rights	**—**	8,000
	22,971	46,233
Included in current assets		
Amounts due from shareholders (Note 27(b)(i))	**—**	315
Cash advances to employees (b)	**3,440**	882
Loans to employees (c)	**1,399**	840
Lease deposits	**978**	1,301
Prepayments for listing related expenses	**—**	4,780
Prepayments (d)	**13,434**	9,848
Other receivables	**4,772**	3,805
	24,023	21,771

As at 30 June 2019 and 31 December 2018, there were no significant balances that are past due.

(a) Prepayments for rental expenses represent prepayments for long-term rental expenses which will not fully utilised within 1 year.

(b) Cash advances to employees mainly represent cash advances to certain employees for ordinary course of business.

(c) Loans to employees mainly represent loans to certain employees for personal house purchase. The loans were unsecured and interest free.

(d) Prepayments mainly represent teaching materials purchase and property management expenses.

19. Financial Assets at Fair Value Through Profit or Loss

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
At beginning of the year	**205,084**	179,616
Additions	**384,056**	452,150
Fair value gains	**6,064**	4,236
Disposals of subsidiaries	**—**	(8,991)
Disposals	**(416,882)**	(503,571)
At the end of the period	**178,322**	123,440

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB, with expected rates of returns ranging from 3.0% to 8.3% per annum for the six months ended 30 June 2019. The returns on all these wealth management products are not guaranteed, and as a result their contractual cash flows do not qualify solely as payments of principal and interest. Therefore, they are measured at fair value through profit or loss.

20. Cash and Cash Equivalents

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Cash and bank deposits	**420,891**	47,700
Less: Term deposits with original maturity over 3 months	**—**	(10,500)
	420,891	37,200

The carrying amounts of the Group's cash and bank deposits are denominated in the following currencies:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
RMB	**33,506**	47,680
US dollar	**87,893**	13
Hong Kong dollar	**299,492**	7
	420,891	47,700

21. Share Capital

	Authorised			Issued		
	Number of ordinary shares	Nominal value		Number of ordinary shares	Nominal value	
		USD	RMB		USD	RMB
Ordinary shares issued upon incorporation (a)	50,000	50,000	314,410	50,000	50,000	314,410
Issue of new ordinary shares (b)	3,831	3,831	24,091	3,831	3,831	24,091
As at 30 June 2018	53,831	53,831	338,501	53,831	53,831	338,501
Balance at 1 January 2019	**53,831**	**53,831**	**338,501**	**53,831**	**53,831**	**338,501**
Effect of share subdivision (c)	**53,777,219**	—	—	**53,777,219**	—	—
Increase in authorised share capital (d)	**946,168,950**	**946,169**	**6,522,132**	—	—	—
Issue of shares pursuant to the Capitalisation (e)	—	—	—	**376,968,950**	**376,969**	**2,581,181**
Issue of shares pursuant to the Listing (f)	—	—	—	**124,900,000**	**124,900**	**855,215**
As at 30 June 2019	**1,000,000,000**	**1,000,000**	**6,860,633**	**555,700,000**	**555,700**	**3,774,897**

(a) The Company was incorporated in the Cayman Islands on 7 February 2018 with authorised and issued share capital of USD50,000 divided into 50,000 ordinary shares of USD1 each.

(b) On 16 April 2018, a written resolution was passed by the Company's shareholder for issuing a total of 3,831 new shares at a par value of USD1 each to CRE Glory Company Limited (華創煜耀有限公司, "CREG"). Upon completion, the total issued share capital of the Company was USD53,831 divided into 53,831 shares of USD1 each. Capital contribution by CREG amounting to RMB106,751,825 was received and RMB24,091 and RMB106,727,734 were recorded as share capital and share premium respectively.

(c) On 3 June 2019, the Company subdivided each of its issued ordinary share of a par value of USD1.00 into 1,000 shares of USD0.001 each. Upon the subdivision, the authorised share capital of the Company was USD53,831.05 divided into 53,831,050 shares of USD0.001 each. Earnings per share amounts presented in the financial statements have been revised on a retrospective basis to reflect the effect of the share split. The par value per share and the share numbers in the other notes of the financial statements have not been retrospectively revised.

(d) On 12 June 2019, the authorised share capital of the Company was increased from 53,831,000 shares of USD0.001 each to 1,000,000,000 shares of USD0.001 each, by the creation of an additional 946,168,950 shares, ranking *pari passu* in all respects with the existing shares.

21. Share Capital (Continued)

(e) Pursuant to the written resolution passed by the shareholders on 12 June 2019 and conditional upon the share premium account of the Company being credited as a result of the Listing, the Directors were authorised to allot and issue a total of 376,968,950 shares, credited as fully-paid, at par by way of capitalisation for the sum of RMB376,968,950 standing to the credit of the share premium account of the Company (the "Capitalisation").

(f) On 21 June 2019, the Company issued 124,900,000 ordinary shares of USD0.001 each at a price of HK$ 3.68 per share pursuant to the initial public offering and Listing of the Company's shares on the Main Board.

(g) Immediately following completion of the Capitalisation Issue and the Listing, the authorised share capital of our Company US$1,000,000 was divided into 1,000,000,000 shares, of which 555,700,000 shares were issued fully paid or credited as fully paid, and 444,300,000 shares remained unissued.

22. Share Premium and Other Reserves

		Other reserves		
	Share premium RMB'000	Merger reserve RMB'000	Capital reserves (a) RMB'000	Total RMB'000
Balance at 1 January 2018	—	—	26,027	26,027
Reorganisation (b)	—	(46,347)	46,347	—
Issuance of shares (Note 21)	106,728	—	—	—
Balance at 30 June 2018	106,728	(46,347)	72,374	26,027
Balance at 1 January 2019	**52,897**	**(46,347)**	**79,011**	**32,664**
Share issued pursuant to the Listing	**402,196**	**—**	**—**	**—**
Issue of shares pursuant to the Capitalisation (Note 21)	**(2,581)**	**—**	**—**	**—**
Listing expense charged to share premium (Note 10)	**(35,548)**	**—**	**—**	**—**
Balance at 30 June 2019	**416,964**	**(46,347)**	**79,011**	**32,664**

(a) The capital reserves of the Group represents the capital contributions from the then equity holders of the Group's subsidiaries. The additions during the six months ended 30 June 2019 and 2018 represent the injection of additional paid-up capital by the then equity holders of the Group's subsidiaries, which were consolidated from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the ultimate controlling party.

(b) Merger reserve represents the excess of the net asset value over the paid-up capital of Shenzhen Scholar which was acquired by the Company pursuant to the Reorganisation.

23. Dividends

On 23 August 2019, the Board resolved to declare an interim dividend of HK$0.02 per share and a special dividend of HK$0.04 per share, totalling to HK$0.06 per share. The interim dividend and special dividend are expected to be paid on or about 15 October 2019 to those shareholders on the register of members on 11 September 2019. The total amount of interim dividend and special dividend to be paid out to the shareholders of the Company amount to HKD11,114,000 and HKD22,228,000, respectively. The interim dividend and the special dividend have not been recognised as liabilities in the interim financial information.

For the six months ended 30 June 2018, the Group declared and paid dividend amounting to RMB35,158,000.

24. Contract Liabilities

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Deferred revenue — Education services	**178,551**	214,701

Contract liability represents the advance considerations received from the students for contracts for education services, which revenue will be recognised when the performance obligation was satisfied through services rendered.

25. Trade and Other Payables

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Non-current		
Deferred operating lease liabilities	**—**	12,969
Current		
Trade payables (a)	**1,750**	618
Amounts due to related parties (Note 27(b)(ii))	**71**	2,035
Employee benefits payables	**36,936**	60,929
Other taxes payables	**8,412**	4,922
Interest payables	**57**	55
Deferred operating lease liabilities	**—**	2,380
Listing related expenses payables	**25,861**	5,256
Payables due to leasehold improvements	**7,399**	5,388
Other payables	**5,892**	4,375
	86,378	85,958

25. Trade and Other Payables (Continued)

(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.

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

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
3 months or less	**1,423**	1,409
3 to 6 months	**247**	967
More than 6 months	**151**	277
	1,821	2,653

26. Borrowings

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Non-current		
— Secured		
Bank borrowings	**24,740**	26,386
Current		
— Secured		
Current portion of non-current bank borrowings	**3,251**	3,173
— Unsecured with guarantee		
Bank borrowings	**18,350**	13,200
	21,601	16,373
	46,341	42,759

For the six months ended 30 June 2019 and the year ended 31 December 2018, bank borrowings bear effective interest rate of 5.2 % and 5.2% respectively. All the bank borrowings of the Group are denominated in RMB.

26. Borrowings (Continued)

The scheduled repayment dates of the Group's bank borrowing, as set out in loan arrangements are as follows:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Within 1 year	**21,601**	16,373
Between 1 and 2 years	**3,415**	3,332
Between 2 and 5 years	**11,307**	11,034
Over 5 years	**10,018**	12,020
	46,341	42,759

As at 30 June 2019 and 31 December 2018, bank borrowings of RMB27,991,000 and RMB29,559,000 were secured by the property, plant and equipment and right-of-use assets for lands of the Group, net book value of which amounted to RMB69,129,000 (for property, plant and equipment: RMB41,229,000; for right-of-use assets for lands: RMB27,900,000) and RMB70,140,000 (for property, plant and equipment: RMB41,832,000; for land use rights: RMB28,308,000), respectively (see Note 15 and Note 16).

As at 30 June 2019 and 31 December 2018, bank borrowings of RMB37,591,000 and RMB42,759,000 were guaranteed by Mr. Chen Qiyuan. As at 23 August 2019, those guarantees had been released.

27. Significant Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decision. Name and relationship with related parties are set out below:

Related parties	Relationship
Shenzhen Zhengxin Tuwen Advertisement Co., Ltd.* (深圳市正信圖文廣告有限公司)	Related party
Shenzhen Hengchuangxin Industrial Technology Co., Ltd.* (深圳市恒創鑫實業科技有限公司)	Related party
Sky Noon International Company Limited	Shareholder
Magnificent Industrial Company Limited	Shareholder
Brilliant Faith Investment Company Limited	Shareholder

* The English names of companies established in the PRC are translation of their Chinese names at the best effort of the directors of the Company as they do not have official English names.

27. Significant Related Party Transactions (Continued)

(a) Significant transactions with related parties

In addition to those disclosed elsewhere in these interim consolidated financial statements, the following transactions were carried out with related parties.

In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective parties.

Purchase of teaching material:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Shenzhen Zhengxin Tuwen Advertisement Co., Ltd.	**1,465**	2,976
Shenzhen Hengchuangxin Industrial Technology Co., Ltd.	**374**	1,158
	1,839	4,134

The purchase of teaching material was conducted on normal commercial terms and the purchase price was determined with reference to the prevailing market price.

Borrowings guaranteed by the controlling shareholder:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Mr. Chen Qiyuan	**37,591**	42,759

(b) Balances with related parties

(i) Other receivables

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Sky Noon International Company Limited	**—**	184
Magnificent Industrial Company Limited	**—**	118
Brilliant Faith Investment Company Limited	**—**	13
	—	315

27. Significant Related Party Transactions (Continued)

(b) Balances with related parties (Continued)

(ii) Trade payables

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Shenzhen Zhengxin Tuwen Advertisement Co., Ltd.	**71**	896
Shenzhen Hengchuangxin Industrial Technology Co., Ltd.	**—**	1,139
	71	2,035

Amounts due to related parties were unsecured, interest-free and repayable on demand.

Financial review

1. Revenue

The Group's revenue increased by 25.2% from RMB236.0 million for the six months ended 30 June 2018 to RMB295.5 million for the six months ended 30 June 2019. This increase was primarily due to increases in the total student enrolments and tutoring hours, which were primarily because (i) the total number of the Group's learning centres increased from 54 as at 31 December 2018 to 64 as at 30 June 2019; and (ii) an increase in the average tuition fee per tutoring hour for regular courses from RMB77.2 for the six months ended 30 June 2018 to RMB79.8 for the six months ended 30 June 2019.

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 2019 Unaudited RMB'000	Six months ended 30 June 2018 Unaudited RMB'000	Change
Academic preparation programme	**284,478**	222,658	27.8%
Early primary education programme	**10,999**	13,365	–17.7%
Total	**295,477**	236,023	25.2%

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

	Six months ended 30 June 2019		Six months ended 30 June 2018		Change	
	Student enrolments	**Tutoring hours**	Student enrolments	Tutoring hours		
Academic preparation programme	**113,017**	**3,566,119**	89,203	2,892,053	26.7%	23.3%
Early primary education programme	**2,652**	**137,488**	3,152	167,057	–15.9%	–17.7%
Total	**115,669**	**3,703,607**	92,355	3,059,110	25.2%	21.1%

The decrease in revenue, student enrolments and tutoring hours in early primary education programme was mainly due to the decrease of learning centres of "Le Xue" (樂學) from ten as at 31 December 2018 to eight as at 30 June 2019.

2. Cost of sales

The cost of sales of the Group increased by 12.3% from RMB149.3 million for the six months ended 30 June 2018 to RMB167.6 million for the six months ended 30 June 2019. This increase was primarily due to (i) an increase in staff costs, primarily due to the increase in the number of total tutoring hours as the result of the opening of new learning centres in 2019; and (ii) the adoption of IFRS 16 — *Leases with effect from 1 January 2019, which resulted in the amortisation of right-of-use assets, which was higher than the rental expenses that would be recognised under the superseded International Accounting Standard 17 — Leases.*

3. Gross profit and gross profit margin

As a result of the foregoing, the gross profit of the Group increased by RMB86.8 million for the six months ended 30 June 2018 to RMB127.9 million for the six months ended 30 June 2019. The gross profit margin of the Group increased from 36.8% for the six months ended 30 June 2018 to 43.3% for the six months ended 30 June 2019 primarily because the learning centres opened in 2017 and 2018 had completed their ramping-up and entered into a growth stage.

4. Selling expenses

The selling expenses of the Group increased by 40.5% from RMB4.6 million for the six months ended 30 June 2018 to RMB6.5 million for the six months ended 30 June 2019. The increase was primarily due to (i) an increase in advertising and exhibition expenses relating to the promotion of the Group's brand upon Listing; and (ii) an increase in entertainment expenses relating to business activities.

5. Administrative expenses

The administrative expenses of the Group increased by 95.1% from RMB32.5 million for the six months ended 30 June 2018 to RMB63.5 million for the six months ended 30 June 2019. This increase was mainly due to (i) the listing expenses of RMB22.9 million (for the six months ended 30 June 2018: RMB2.9 million) the Company incurred for the six months ended 30 June 2019 in connection with the Listing; and (ii) the increase of RMB6.9 million in salaries and benefits for the Group's administrative personnel as a result of the expansion of the Group's learning centre network and growth of the Group's business.

6. Research and development expenses

The research and development expenses of the Group increased by 17.2% from RMB13.5 million for the six months ended 30 June 2018 to RMB15.8 million for the six months ended 30 June 2019. The increase was primarily due to the increase in the number of research and development personnel.

7. Other income

The other income of the Group increased by 21.2% from RMB2.0 million for the six months ended 30 June 2018 to RMB2.4 million for the six months ended 30 June 2019. This increase was primarily due to (i) an increase of RMB0.4 million in finance income; and (ii) an increase of RMB0.3 million in government grants. The increase was offset in part by the increase of RMB0.5 million in sub-lease expenses.

8. Other net gains

The other net gains of the Group increased by 75.9% from RMB3.7 million for the six months ended 30 June 2018 to RMB6.6 million for the six months ended 30 June 2019. This increase was primarily attributable to (i) an increase of RMB1.9 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; and (ii) the increase in exchange gain of RMB1.1 million as a result of appreciation of cash and bank deposits denominated in Hong Kong dollar and US dollar.

9. Finance costs

The finance costs of the Group increased by 435.3% from RMB2.0 million for the six months ended 30 June 2018 to RMB10.7 million for the six months ended 30 June 2019, primarily due to increase in interest expenses on lease liabilities of RMB9.4 million as a result of the adoption of IFRS 16 — *Leases* with effect from 1 January 2019.

10. Profit before income tax

As a result of the foregoing, the profit of the Group before income tax slightly increased by 1.4% from RMB39.9 million for the six months ended 30 June 2018 to RMB40.4 million for the six months ended 30 June 2019.

11. Income tax expenses

The income tax expenses of the Group were approximately RMB5.9 million for the six months ended 30 June 2018 as compared to income tax expenses of RMB7.0 million for six months ended 30 June 2019. The change was primarily due to an increase in the taxable profit of the Group. The effective tax rate of the Group was 14.9% for the six months ended 30 June 2018 as compared to the effective tax rate of 17.2% for the six months ended 30 June 2019. The increase in the effective tax rate was primarily due to the increase in loss generated from the Group's Cayman Islands entity, which is exempt from income tax.

12. Profit for the period from continuing operations

As a result of the foregoing, the profit of the Group for the period from continuing operations slightly decreased by 1.4% from RMB34.0 million for the six months ended 30 June 2018 to RMB33.5 million for the six months ended 30 June 2019.

Adjusted profit from continuing operations

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 from continuing operations in the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit from continuing operations:

	Six months ended 30 June		
	2019 Unaudited RMB'000	2018 Unaudited RMB'000	Change
Profit from continuing operations	**33,473**	33,959	–1.4%
Add:			
Listing expenses	**22,856**	2,923	681.9%
Effect on the adoption of IFRS 16 —			
Leases with effect from 1 January 2019	**3,850**	—	Not applicable
Adjusted profit from continuing operations	**60,179**	36,882	63.2%

Liquidity, Financial Resources and Capital Structure

The total equity of the Group as at 30 June 2019 was RMB516,195,000 (31 December 2018: RMB115,219,000). The Group generally finances its operation with internally generated cash flows. The Group had bank and cash balance of RMB420,891,000 as at 30 June 2019 (31 December 2018: RMB37,200,000), with total bank borrowings of RMB46,341,000 (31 December 2018: RMB42,759,000), all of which were denominated in RMB (31 December 2018: all). Of the bank borrowings of the Group as at 30 June 2019, (i) approximately 46.6% were repayable within one year (31 December 2018: approximately 38.3%); (ii) approximately 7.4% were repayable between one and two years (31 December 2018: approximately 7.8%); (iii) approximately 24.4% were repayable between two and five years (31 December 2018: approximately 25.8%); and (iv) approximately 21.6% were repayable over five years (31 December 2018: approximately 28.1%). The Group's gearing ratio as at 30 June 2019 was 9.0% (31 December 2018: 37.1%), based on the short-term and long-term interest bearing bank borrowings and the equity attributable to equity holders of the Company. As at 30 June 2019, all of the bank borrowings of the Group were variable rate borrowings (31 December 2018: all). As at 30 June 2019, the Group had net current assets of RMB259,407,000 (31 December 2018: net current liabilities of RMB51,699,000).

Treasury management policy

The treasury management policy of the Group is to utilise surplus cash reserves to invest in low-risk wealth management products and generate income without interfering with the Group's business operations or capital expenditures. With the aim of controlling risks to the Group, the Group generally invests in low-risk, short-term (with maturity periods not more than one year) and principal-protected wealth management products, including (i) money market instruments such as certified deposits and currency funds; and (ii) debt instruments such as sovereign debt, central bank-issued debts and various debt funds. The chairman of the Board is mandated by the Board to make investment decisions within the pre-determined limit. Subject to the approval of the chairman of the Board, who must sign all investment contracts, the finance department of the Group is responsible for the overall execution of the Group's investment decisions. The finance 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 finance department identifies any risk for the wealth management products, the Group will take immediate action to manage its risk exposure. The investments of the Group are monitored from time to time, and professional agencies will be appointed to perform review and audit of such investments if deemed necessary. The finance 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 chief financial officer 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 finance 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. Since the net proceeds from the global offering are denominated in HKD, most of the cash and bank deposits of the Group as at 30 June 2019 were denominated in USD and HKD, while as at 31 December 2018, most of the cash and bank deposits of the Group 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.

Contingent liabilities

As at 30 June 2019, 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 2018: nil).

Pledge of assets

As at 30 June 2019, bank borrowings of RMB27,991,000 (31 December 2018: RMB29,559,000) were secured by property, plant and equipment of RMB41,229,000 (31 December 2018: RMB41,832,000) and right-of-use assets for land of RMB27,900,000 (31 December 2018: land use rights of RMB28,308,000).

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures and Future Plans for Material Investments or Capital Assets

Save as disclosed in this interim report, there was no significant investment held, material acquisition and disposal of subsidiaries and associates by the Company for the six months ended 30 June 2019. 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.

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 2,676 employees as at 30 June 2019 (31 December 2018: 2,243 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 Special Dividend

The Board has resolved to declare an interim dividend of HK$0.02 per Share for the six months ended 30 June 2019 and a special dividend of HK$0.04 per Share to shareholders of the Company. The interim dividend and special dividend are expected to be paid on or about 15 October 2019 to those shareholders on the register of members on 11 September 2019.

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

From the Listing Date to 30 June 2019, 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 from the Listing Date to 30 June 2019.

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 2019 and this interim report 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 from the Listing Date to 30 June 2019.

5. Use of proceeds from global offering

On 21 June 2019, the Shares were listed on the Main Board of the Stock Exchange. The net proceeds from the global offering were approximately HK$450.1 million, which are intended to be applied in the manner as set out in the Prospectus. As at 30 June 2019, none of the proceeds had been used.

6. Directors' and chief executive interests and short positions in shares, underlying shares and debentures

As at 30 June 2019, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Long positions in the Company

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Chen Qiyuan[(1)]	Interest in a controlled corporation	214,080,000	38.52%

Note:

(1) Mr. Chen Qiyuan is the sole shareholder of Yu Xi International, and he is therefore deemed to be interested in the Shares held by Sky Noon, through Yu Xi International.

(b) Long positions in Shenzhen Scholar Culture and Education Technology and Development Co., Ltd.* (深圳市思考樂文化教育科技發展有限公司)

Name	Capacity/Nature of interest	Amount of registered share capital (RMB)	Approximate percentage of shareholding
Mr. Chen Qiyuan	Beneficial owner	7,800,000	39%

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

7. Substantial shareholders' interests and short positions in shares and underlying shares

As at 30 June 2019, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Sky Noon[(1)]	Beneficial owner	214,080,000	38.52%
Yu Xi International[(1)]	Interest in a controlled corporation	214,080,000	38.52%
Magnificent Industrial[(2)]	Beneficial owner	138,024,000	24.84%
CREG[(3)]	Beneficial owner	64,616,000	11.63%
CRE Alliance Fund I L.P.[(3)(4)]	Interest in a controlled corporation	64,616,000	11.63%
CRE Alliance (Cayman) Limited[(3)]	Interest in a controlled corporation	64,616,000	11.63%
CRE Alliance (BVI) Limited[(3)]	Interest in a controlled corporation	64,616,000	11.63%
CRE Trading (Hong Kong) Limited[(3)]	Interest in a controlled corporation	64,616,000	11.63%
China Resources Enterprise, Limited[(3)]	Interest in a controlled corporation	64,616,000	11.63%
CRE Alliance Fund I LP Limited[(4)]	Interest in a controlled corporation	64,616,000	11.63%
China Great Wall AMC (International) Holdings Company Limited[(4)]	Interest in a controlled corporation	64,616,000	11.63%

Notes:

(1) Sky Noon is owned as to 100 voting shares by Yu Xi International and 100 non-voting shares by Xuan Yuang Jiu Zhou Holdings Ltd. Yu Xi International is wholly-owned by Mr. Chen Qiyuan, an executive Director and a controlling shareholder of the Company. Yu Xi International is deemed to be interested in all the Shares in which Sky Noon is interested by virtue of the SFO.

(2) Magnificent Industrial is owned as to 25.1140% by Mr. Chen Hongyu, 1.3319% by Mr. Hua Ribao, 2.2376% by Mr. Li Yong, 9.1881% by Mr. He Fan, 8.9505% by Mr. Zou Bangxin, 9.0693% by Mr. Qi Mingzhi, 4.4752% by Mr. Zhu Lixun, 9.0693% by Ms. Li Ailing, 9.4752% by Ms. Zhu Mingxia, 2.2376% by Ms. Leng Xinlan, 2.2376% by Mr. Cheng Zai, 9.9009% by Mr. Xu Chaoqiang, 2.2376% by Ms. Liang Renhong and 4.4752% by Ms. Pan Danting. Mr. Chen Hongyu, Mr. Qi Mingzhi and Mr. Xu Chaoqiang are executive Directors. Mr. Hua Ribao, Mr. He Fan and Ms. Li Ailing are senior management of the Group members while the remaining individuals are employees of the Group.

(3) CREG is wholly owned by CRE Alliance Fund I L.P. The general partner of CRE Alliance Fund I L.P. is CRE Alliance (Cayman) Limited, which is in turn wholly owned by CRE Alliance (BVI) Limited. CRE Alliance (BVI) Limited is wholly owned by CRE Trading (Hong Kong) Limited, which is in turn wholly owned by China Resources Enterprise, Limited. China Resources Enterprise, Limited is wholly held by CRH (CRE) Limited, which is in turn wholly owned by China Resources (Holdings) Company Limited. Accordingly, each of CRE Alliance Fund I L.P., CRE Alliance (Cayman) Limited, CRE Alliance (BVI) Limited, CRE Trading (Hong Kong) Limited, China Resources Enterprise, Limited, CRH (CRE) Limited and China Resources (Holdings) Company Limited is deemed to be interested in all Shares held by CREG pursuant to the SFO.

(4) CRE Alliance Fund I L.P. is interested as to 49.5% and 49.5% by CRE Alliance Fund I LP Limited and China Great Wall AMC (International) Holdings Company Limited as limited partners. As such, they are deemed to be interested in all the Shares held by CRE Alliance Fund I L.P. and its wholly-owned subsidiary, CREG pursuant to the SFO.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

8. Share Option Scheme

The Company adopted a share Option Scheme on 3 June 2019 (the "Share Option Scheme"). The Share Option Scheme is subject to the provisions of the Listing Rules. The purpose of the Share Option Scheme is to provide selected participants, including employees, directors, suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, agents, representatives and service providers of the members of the Group, an opportunity to have a personal stake in the Company and help motivate them to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such selected participants. For further details on the Share Option Scheme, please see "Statutory and General Information — F. Share Option Scheme" in Appendix V to the Prospectus.

The Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants. No share options have been granted or agreed to be granted under the Share Option Scheme as at 30 June 2019.

9. Structured Contracts

Background of the Structured Contracts

The following summarised generally the status of the structured contracts (the "Structured Contracts") adopted by the Group given the PRC legal restriction imposed on the shareholding structure over the business the Group is engaging. For further details of the Structured Contracts, please refer to "Structured Contracts" in the Prospectus. Capitalised terms used in this paragraph follow the meaning of those defined in the Prospectus, unless otherwise stated.

The Group currently conducts its K-12 after-school tutoring business through its PRC operating entities (the "PRC Operating Entities") in the PRC. Based on the interviews of the Group with competent authorities in Guangdong and Xiamen, Fujian province, the Group cannot convert any of the PRC Operating Entities into Sino-foreign joint venture entities as a matter of practice or due to the lack of implementation rules. As such, the Company adopted the Structured Contracts to control and enjoy the economic benefits generated by the PRC Operating Entities. The Group does not hold any equity interest in the PRC Operating Entities. The Structured Contracts, through which the Group obtains control over and derive the economic benefits from the PRC Operating Entities, have been narrowly tailored to achieve the business purpose of the Group and minimise the potential conflict with relevant PRC laws and regulations. The Group had entered into the Structured Contracts for the existing PRC Operating Entities and expects to enter into structured contracts for entities to be newly established or invested in, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

Unwinding of the Structured Contracts

Shenzhen Fengye has undertaken that, if the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there is no other change in the relevant PRC laws and regulations), it will exercise the Equity Call Option in full to hold all of the interest in the PRC Operating Entities and unwind the Structured Contracts accordingly. For further details, please refer to "Structured Contracts — Termination of the Structured Contracts" in the Prospectus.

As at the date of this report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed.

Plan to Comply with the Qualification Requirement

According to the consultation with the Relevant Education Authorities, they will not accept an application to convert the PRC Operating Entities or the entities to be newly established or invested by the Group into Sino-foreign joint venture entities at this stage and in the foreseeable future. Although it is not possible for the Relevant Education Authorities to accept the Group's application to convert any of the PRC Operating Entities into Sino-foreign joint venture entities due to a lack of implementation measures or guidance at the current stage, the Group has taken specific steps with a view to demonstrating compliance with the Qualification Requirement. With the assistance of a consultant, the Group is in the process of preparing the launch of a tutorial centre in Hong Kong, which has already obtained a certificate of provisional registration from the Education Bureau in Hong Kong and is currently identifying and recruiting suitable teachers and other relevant staff. As disclosed in the Prospectus, the Group expects to spend approximately HK$14 million primarily by utilising internally-generated resources in the first five years since the preparation for the establishment of the tutorial centre in Hong Kong. As at 30 June 2019, approximately HK$0.6 million had been spent in connection with the foregoing.

The Company is of the view that the foregoing steps are meaningful endeavours that are reasonable and appropriate to comply with the Qualification Requirement.

Foreign Investment Law

On March 15, 2019, the Foreign Investment Law was formally passed by the 13th National People's Congress and will take effect on 1 January 2020. The Foreign Investment Law will replace the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. Since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, administrative regulations and provisions of the State Council do not incorporate contractual arrangements as a form of foreign investment, then the Foreign Investment Law would not apply to, or have any impact on, the Structured Contracts, and it would not substantially change the identification of foreign investors in the context of foreign investment and the principle of recognition and treatment of contractual arrangements compared with the current PRC laws and regulations, therefore the Structured Contracts as a whole and each of the agreements comprising the Structured Contracts will not be affected and will continue to be legal, valid and binding on the parties.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council". Therefore, there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, and then whether the Structured Contracts will be recognised as foreign investment, whether the Structured Contracts will be deemed to be in violation of the foreign investment access requirements and, as at the date of this report, how the Structured Contracts will be handled are uncertain. Therefore, there is no guarantee that the Structured Contracts and the business of the PRC Operating Entities will not be materially and adversely affected in the future. We will disclose changes to or updates of the Foreign Investment Law that will materially and adversely affect the Group as and when they occur.

Overall Performance and Compliance with the Structured Contracts

The Group has adopted certain measures to ensure the effective operation of the Group with the implementation of the Structured Contracts and compliance with the Structured Contracts as detailed in the Prospectus. The Group has implemented measures before the Structured Contracts are unwound, with an aim to further enhancing its control over the PRC Operating Entities. Each of the Directors has confirmed that he/she, and his/her associates, do not have any interest in any business or interests that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group. The Company is not aware of any non-performance of the Structured Contracts or non-compliance with such aforementioned measures as at the date of this report.

By Order of the Board
Scholar Education Group

Chen Qiyuan
Chairman of the Board and Executive Director

Qi Mingzhi
Executive Director and Chief Executive Officer

Hong Kong, 23 August 2019

DEFINITIONS

"Board"	the board of Directors
"CG Code"	Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Company"	Scholar Education Group, an exempted company incorporated in the Cayman Islands with limited liability on 7 February 2018
"CREG"	CRE Glory Company Limited (華創煜耀有限公司), a company incorporated under the laws of the Cayman Islands on 3 November 2017
Director(s)	the director(s) of the Company
"Greater Bay Area"	Guangdong-Hong Kong-Macau Greater Bay Area
"Group"	the Company with its subsidiaries and consolidated affiliated entities
"IFRS"	International Financial Reporting Standards
"Listing Date"	21 June 2019, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Magnificent Industrial"	Magnificent Industrial Company Limited (鴻圖嘉業有限公司), a company incorporated under the laws of the BVI on 29 December 2017
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers
"Prospectus"	the prospectus of the Company dated 12 June 2019 in connection with the Global Offering of the Shares
"SFO"	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
"Share(s)"	ordinary share(s) of US$0.001 each in the share capital of the Company
"Sky Noon"	Sky Noon International Company Limited (天晟國際有限公 司), a company incorporated under the laws of the BVI on 29 December 2017
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Yu Xi International"	Yu Xi International Company Limited (語汐國際有限公司), a company incorporated under the laws of the BVI on 29 April 2019