SOUTH CHINA VOCATIONAL EDUCATION GROUP COMPANY LIMITED
中國華南職業教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6913)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022 AND CHANGE IN USE OF PROCEEDS

The board (the "**Board**") of directors (the "**Directors**") of South China Vocational Education Group Company Limited (the "**Company**") is pleased to announce the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2022 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2021.

FINANCIAL HIGHLIGHTS

	Year ended 31 December			
	2022	2021	**Change**	Percentage change
	RMB'000	*RMB'000*	***RMB'000***	*(%)*
Revenue	**516,276**	499,621	**16,655**	+3.33
Cost of sales	**319,436**	298,007	**21,429**	+7.19
Gross profit	**196,840**	201,614	**(4,774)**	-2.37
Profit before tax	**148,267**	157,411	**(9,144)**	-5.81
Profit for the year	**142,921**	153,938	**(11,017)**	-7.16

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

	Notes	**2022** **RMB'000**	2021 RMB'000
REVENUE	*4*	**516,276**	499,621
Cost of sales		**(319,436)**	(298,007)
Gross profit		**196,840**	201,614
Other income and gains	*4*	**86,034**	112,153
Selling and distribution expenses		**(21,194)**	(19,074)
Administrative expenses		**(75,918)**	(94,130)
Other expenses		**(23,519)**	(25,392)
Finance costs		**(13,976)**	(17,760)
PROFIT BEFORE TAX	*5*	**148,267**	157,411
Income tax expense	*6*	**(5,346)**	(3,473)
PROFIT FOR THE YEAR		**142,921**	153,938
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		**62**	23
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**62**	23
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**62**	23
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**142,983**	153,961
Profit attributable to:			
Owners of the parent		**142,877**	153,938
Non-controlling interests		**44**	–
		142,921	153,938
Total comprehensive income attributable to:			
Owners of the parent		**142,939**	153,961
Non-controlling interests		**44**	–
		142,983	153,961
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic and diluted			
– For profit for the year		**RMB0.11**	RMB0.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2022

	Notes	**2022** **RMB'000**	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,291,312**	1,138,478
Investment properties		**51,770**	53,700
Right-of-use assets		**407,798**	439,710
Goodwill		**3,052**	–
Other intangible assets		**8,426**	8,903
Prepayments for non-current assets		**7,374**	1,068
Contract costs		**7,972**	5,834
Pledged deposits		**30,000**	–
Total non-current assets		**1,807,704**	1,647,693
CURRENT ASSETS			
Prepayments, other receivables and other assets		**244,814**	8,641
Accounts receivable	*9*	**7,767**	5,961
Amounts due from related parties		**15,849**	57,575
Amounts due from a director		**5,140**	–
Financial assets at fair value through profit or loss		**–**	70,047
Contract costs		**8,024**	6,663
Cash and cash equivalents		**247,305**	482,393
Total current assets		**528,899**	631,280
CURRENT LIABILITIES			
Contract liabilities	*4*	**177,517**	151,830
Other payables and accruals		**167,986**	140,504
Interest-bearing bank and other borrowings		**89,172**	83,415
Lease liabilities		**23,637**	25,210
Tax payable		**18,926**	16,985
Amounts due to related parties		**41**	467
Deferred income		**5,362**	5,366
Total current liabilities		**482,641**	423,777
NET CURRENT ASSETS		**46,258**	207,503
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,853,962**	1,855,196

	2022	2021
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**122,460**	185,009
Lease liabilities	**107,238**	123,167
Deferred income	**86,246**	91,495
Total non-current liabilities	**315,944**	399,671
Net assets	**1,538,018**	1,455,525
EQUITY		
Equity attributable to owners of the parent		
Share capital	**11,124**	11,124
Reserves	**1,526,713**	1,444,401
	1,537,837	1,455,525
Non-controlling interests	**181**	–
Total equity	**1,538,018**	1,455,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

South China Vocational Education Group Company Limited (中國華南職業教育集團有限公司) was incorporated in the Cayman Islands on 15 August 2018 as an exempted company with limited liability under the Companies ACT of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. During the year, the Company and its subsidiaries were principally engaged in providing private higher vocational education in the People's Republic of China (the "**PRC**").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "**Conceptual Framework**") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of higher vocational education services in the PRC.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the Directors review the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no further geographical segment information is presented.

Information about major customers

No revenue from services provided to a single customer accounted for 10% or more of the total revenue of the Group during the year (2021: Nil).

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	Notes	**2022** **RMB'000**	2021 RMB'000
Revenue			
Revenue from contracts with customers			
Tuition fees	*(a)*	**468,257**	450,341
Boarding fees	*(a)*	**40,835**	43,096
Other education service fees	*(b)*	**7,184**	6,184
		516,276	499,621
Other income and gains			
Rental income		**37,605**	56,931
Training income		**24,607**	17,010
Government grants:			
Related to assets	*(c)*	**5,609**	5,441
Related to income	*(d)*	**3,838**	4,896
Fair value gain, net:			
Financial assets at fair value through profit or loss		**3,680**	1,694
Bank interest income		**3,608**	4,236
Loan interest income	*(e)*	**4,976**	–
Brand licensing income		**1,347**	2,365
Written-off of an amount due to a related party		**467**	–
Gain on disposal of items of property, plant and equipment, net		**65**	8,598
Gain on termination of leases		**–**	10,700
Others		**232**	282
		86,034	112,153

Notes:

(a) Tuition fees and boarding fees mainly represented income received from the provision of education and boarding services to the students, which were recognised over time, i.e. the academic year, of the services rendered.

(b) Other education service fees mainly represented income received from the provision of other education services including training services to the students, which was recognised over time, i.e. the training periods, of the services rendered.

(c) Government grants related to assets represent the subsidies in connection with certain pieces of leasehold land and the electronic devices relating to teaching activities. These grants related to assets are released to profit or loss over the expected useful lives of the relevant assets.

(d) Government grants related to income represent the subsidies compensated for the incurred operating expenses arising from teaching activities, which were recognised as other income when the incurred operating expenses fulfilled the conditions attached.

(e) Loan interest income consists of i) interest income of RMB2,842,000 (2021: Nil) from loans to Guangzhou Haige Meina Film Production Co., Ltd.; ii) interest income of RMB1,935,000 (2021: Nil) from loans to other companies (2021: Nil); iii) interest income of RMB133,000 (2021: Nil) from loans to a director; and iv) interest income of RMB66,000 (2021: Nil) from a loan to a related party, which were calculated based on the principal and the corresponding interest rate. As at 31 December 2022, all loan interest income of RMB4,976,000 has not been repaid yet.

Contract liabilities

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year or semester. The performance obligation is satisfied proportionately over the relevant period of the applicable program. The students are entitled to the refund of the payment in relation to the proportionate service not yet provided.

Significant changes in the contract liability balances during the year are as follows:

	2022	2021
	RMB'000	*RMB'000*
At the beginning of the year	**151,830**	167,856
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year	**(148,185)**	(165,949)
Increases due to cash received, including amounts recognised as revenue during the year	**535,049**	474,939
Revenue recognised that was not included in contract liabilities at the beginning of the year	**(356,969)**	(322,132)
Transfer to refund liabilities	**(4,208)**	(2,884)
At the end of the year	**177,517**	151,830

Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current year that were included in the contract liabilities at the beginning of the year:

	2022	2021
	RMB'000	*RMB'000*
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year		
Tuition fees	**132,514**	147,358
Boarding fees	**15,671**	18,591
	148,185	165,949

Unsatisfied performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2022 are as follows:

	2022	2021
	RMB'000	*RMB'000*
Expected to be recognised within one year:		
Tuition fees	**158,528**	135,594
Boarding fees	**18,989**	16,236
	177,517	151,830

The amounts of transaction prices associated with unsatisfied or partially unsatisfied performance obligations do not include variable consideration which is constrained.

There were no contract assets at the end of the reporting period recognised in the consolidated statement of financial position as at 31 December 2022 and 2021.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2022 RMB'000	2021 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration:			
Wages and salaries		**168,184**	167,037
Pension scheme contributions (defined contribution scheme)****		**18,582**	16,377
		186,766	183,414
Depreciation of property, plant and equipment		**50,625**	47,380
Depreciation of right-of-use assets		**31,912**	31,764
Depreciation of investment properties		**1,930**	4,348
Amortisation of other intangible assets*		**1,924**	1,771
Direct operating expenses arising from rental-earning investment properties***		**6,669**	10,346
Auditor's remuneration		**3,110**	2,700
Donation expenses***		**908**	818
Loss on disposal of other intangible assets		**181**	–
Lease payments not included in the measurement of lease liabilities		**288**	1,125
Impairment of accounts receivable	*9*	**331**	332
Exchange loss, net***		**463**	1,948
Government grants**		**(9,447)**	(10,337)
Fair value gain, net			
Financial assets at fair value through profit or loss	*4*	**(3,680)**	(1,694)
Bank interest income	*4*	**(3,608)**	(4,236)
Loan interest income	*4*	**(4,976)**	–
Written-off of an amount due to a related party	*4*	**(467)**	–
Gain on disposal of items of property, plant and equipment, net	*4*	**(65)**	(8,598)
Gain on termination of leases	*4*	**–**	(10,700)
Loss on disposal of investment properties		**–**	25
Listing expenses		**–**	25,388

* The amortisation of other intangible assets is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

** There are no unfulfilled conditions or other contingencies attaching to the government grants that have been recognised.

*** These amounts are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

**** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6. INCOME TAX

	2022 RMB'000	2021 RMB'000
Current – Mainland China		
Charge for the year	**5,346**	3,473

7. DIVIDENDS

	2022	2021
	RMB'000	*RMB'000*
Proposed final – Nil (2021:HK5.6 cents) per ordinary share	**–**	60,627

The directors of the Company do not recommend or declare the payment of any dividend in respect of the year ended 31 December 2022 (2021: Dividend of HK5.6 cents per ordinary share).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

On 13 July 2021, the Company was listed on the Main Board of the Hong Kong Stock Exchange by way of issuing 334,000,000 new ordinary shares and the capitalisation issue of 999,000,000 ordinary shares (the "**Capitalisation Issue**").

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,334,000,000 (2021: 1,156,476,712 ordinary shares, as adjusted to reflect the Capitalisation Issue) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

The calculations of basic and diluted earnings per share are based on:

	2022	2021
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**142,877**	153,938

	Number of shares	
	2022	2021
Shares		
Number of issued shares on 1 January	**1,334,000,000**	1,000,000
Effect of the Capitalisation Issue on 13 July 2021	**–**	999,000,000
Effect of the Global Offering on 13 July 2021	**–**	156,476,712
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**1,334,000,000**	1,156,476,712

9. ACCOUNTS RECEIVABLE

	2022	2021
	RMB'000	*RMB'000*
Tuition fees and boarding fees receivables	**8,197**	6,209
Impairment	**(430)**	(248)
	7,767	5,961

The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year or semester normally in September or February. The outstanding receivables represent amounts due from students who have applied for deferred payments of tuition fees and boarding fees. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a number of individual students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

An ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within one year	**7,756**	5,911
One to two years	**11**	50
	7,767	5,961

The movements in the loss allowance for impairment of accounts receivable are as follows:

	2022	2021
	RMB'000	*RMB'000*
At beginning of year	**248**	101
Impairment losses *(note 5)*	**331**	332
Amounts written off as uncollectible	**(149)**	(185)
At end of year	**430**	248

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group operated two schools in the Greater Bay Area, namely, Guangdong Lingnan Institute of Technology* (廣東嶺南職業技術學院) ("**Lingnan Institute of Technology**") and Guangdong Lingnan Modern Technician College* (廣東嶺南現代技師學院) ("**Lingnan Modern Technician College**").

Key Operating Business

The Group's Lingnan Institute of Technology was established in May 2002 to provide diploma education and vocational training and its Lingnan Modern Technician College was established in July 2005 to provide vocational education and training.

Lingnan Institute of Technology

Lingnan Institute of Technology is a private vocational education institution that has two campuses, one of which is located in Guangzhou, Guangdong Province (the "**Guangzhou Campus**"), and the other is located in Qingyuan, Guangdong Province (the "**Qingyuan Campus**"). As at 31 December 2022, Lingnan Institute of Technology had 13 secondary colleges and offered over 47 majors in a wide range of disciplines, including but not limited to, electronic information engineering technology, e-commerce, computer network technology, cloud computing technology application, webcasting and operation, online marketing and livestreaming e-commerce, industrial internet, financial services and management, etc.

Lingnan Modern Technician College

Lingnan Modern Technician College is a private vocational education institution located in Guangzhou and provides vocational education and training in various industries for students. As at 31 December 2022, Lingnan Modern Technician College had 7 departments and offered over 27 majors, including but not limited to, mechatronics, drones, vehicle inspection and maintenance, fire engineering, traditional Chinese medicine, rehabilitation, nursing, big data applications, advertising design, computer network application, computer program design and digital media application, etc.

Ancillary Education Services

The Group also generates revenue from certain ancillary education services, which primarily comprise of continuing education programs and other education services. Other education services primarily consist of test preparation and training services the Group provides to the students of its schools for occupational skills appraisal and professional qualification and certificates. These educational services are referred as the Group's "Ancillary Education Services".

Business Operating Data

The aggregate number of full-time students enrolled at the Group's schools amounted to 26,743 for the 2022/2023 school year. As at 31 December 2022, the average tuition fee of Lingnan Institute of Technology and Lingnan Modern Technician College amounted to RMB17,348 and RMB12,667, respectively, and the average boarding fee of these two schools amounted to RMB1,792 and RMB1,804, respectively.

OUTLOOK

Favorable Policy Environment for Vocational Education

In October 2021, the General Office of the Central Committee of CPC and the General Office of the State Council issued the Opinions (the "**Promoting Opinions**") on Promoting the High-Quality Development of Modern Vocational Education (《關於推動現代職業教育高品質發展的意見》). The Promoting Opinions have put forward that vocational education, an important part of the national education system and human resource development, shoulders the important responsibility of training diversified talents, inheriting technical skills, and promoting employment and entrepreneurship. In the new journey of building a modernised socialist country in an all-round way, vocational education has a bright and promising future. The Promoting Opinions have also determined the development goals for vocational education by 2025: the types of vocational education are more distinctive, a modern vocational education system is basically completed, and the construction of a skill-based society is being fully promoted. The pattern of running schools will be further optimised, the conditions of running schools will be greatly improved, the enrollment scale of vocational education at undergraduate level will not be less than 10% of the enrollment scale of higher vocational education, and thus the attractiveness and training quality of vocational education will be significantly enhanced.

In February 2022, the Ministry of Education held a press conference to introduce the works related to promoting the high-quality development of modern vocational education, and proposed: 1) to promote the steady progress of bachelor-level vocational education, and promote the diversified development of secondary vocational education, 2) to select and build about 10 high-level bachelor-level vocational education demonstration schools through "small incision" ("小切口") and "big support" ("大支持") in the way of joint construction of ministries and provinces, 3) to transform from the original simple "employment-oriented" to "emphasis on both employment and further education", focusing on further education that is in line with the characteristics of vocational education, 4) to build about 1,000 national-level high-quality secondary vocational schools in 3 to 5 years, to demonstrate to drive the entire secondary vocational education to be standardized and qualified, and to guide parents and students to rationally choose secondary vocational education, and 5) to promote the establishment of a "vocational education college entrance examination" system with provincial coordination, comprehensive evaluation and multiple-channel admissions.

In April 2022, the newly revised Vocational Education Law of the People's Republic of China (《中華人民共和國職業教育法》) (the "**Vocational Education Law**") was voted and passed by the 34th meeting of the Standing Committee of the 13th National People's Congress, the revision of which was the first revision in nearly 26 years. This revision clarifies that "vocational education is a type of education that is of equal importance as general education", promotes "the mutual integration of vocational education and general education", and clarifies that "the State encourages the development of various levels and forms of vocational education, promotes diversified school-running, supports broad and equal participation of social forces in vocational education". The revised Vocational Education Law also adds the followings: 1) appropriately reducing the academic requirements for the positions publicly recruited by public institutions with vocational skill level requirements; and 2) accelerating the cultivation of technical and skilled talents in pre-school education, nursing, health care, and housekeeping. The encouraging attitude towards vocational education is further extended.

In December 2022, the General Office of the Central Committee of CPC and the General Office of the State Council issued the Opinions (the "**Deepening Opinions**") on Deepening the Construction and Reform of Modern Vocational Education System (《關於深化現代職業教育體系建設改革的意見》). The Deepening Opinions have put forward that the promotion of the high-quality development of modern vocational education should be placed in a more prominent position. The Deepening Opinions also emphasized that modern vocational education should insist on serving the overall development of students and economic and social development, based on enhancing the key competencies of vocational schools, focusing on deepening the integration of industry and education, promoting the integration of vocational education with the general education as the key, taking the integration of science and education as the new direction, in order to fully mobilize the enthusiasm of all parties, coordinate the synergy and innovation of vocational education, higher education and continuing education, orderly and effectively promote the construction and reform of modern vocational education system, improve the quality, adaptability and attractiveness of vocational education, cultivate more high-quality technical and skilled talents, skilled craftsmen and craftsmen, and lay a solid foundation for accelerating the building of a strong country in education, science and technology and talent.

The vocational education business engaged in by the Group is in line with the direction of encouragement and support of national policies and has a great potential for future development.

Deepening the Development in the Guangdong-Hong Kong-Macau Greater Bay Area to Provide High-Caliber Talents for the Greater Bay Area Continuously

The Guangdong-Hong Kong-Macau Greater Bay Area has become one of the key economic growth drivers in China. According to relevant statistics, the Greater Bay Area occupied less than 1% of China's land area yet contributed 10.6% nominal GDP in 2022. With the economic transformation and the population aging, the Greater Bay Area will need more and more skilled talents in emerging industries and major health-related industries.

Based on the two existing schools, the Group will continue to expand its school network and vocational education market in the Guangdong-Hong Kong-Macao Greater Bay Area, including formal and non-formal vocational training market, to gradually increase its market share and consolidate its position as a leading vocational education service provider in the Greater Bay Area.

Business Development Strategy

The Group will improve its results performance through the following five aspects:

1) ***Promoting endogenous growth of formal vocational education***

The expansion and upgrade of Lingnan Institute of Technology will continue. Supported by the policy of encouraging the establishment of undergraduate level vocational education, it will firstly focus on the establishment of certain undergraduate programs and then gradually develop into an undergraduate level vocational and technical college as a whole. In July 2021, the Guangdong Industry-Education Integration Demonstration Park (Qingyuan) project of Lingnan Institute of Technology was incorporated into the key construction project plan of Guangdong Province by Guangdong Provincial Development and Reform Commission, being the only demonstrative industry-education integration park project included in the provincial key construction project in Guangdong Province. Further, Lingnan Modern Technician College will proactively identify new venues in the Greater Bay Area for its new branches or new independent colleges, expanding its network of secondary vocational schools.

2) Expanding school networks by mergers and acquisitions

In addition to robust endogenous growth, the Group will also strive to expand its school networks by means of mergers and acquisitions. For the target of mergers and acquisitions, the Group will give priority to high-quality technical schools and institutions providing non-formal vocational training in the Guangdong-Hong Kong-Macao Greater Bay Area. Acquisition of existing schools will not only help the Group expand its scale, but is also conducive to the generation of synergies with its existing schools, thereby identifying more business opportunities and materialising more values.

3) Expanding ancillary education business

The Group will proactively expand the ancillary education business, including the adult continuing education program, trainings on vocational qualification level examination, and training tasks for government institutions and industry associations. Lingnan Modern Technician College owned by the Group is among the list of the first batch of 2021 social training evaluation organisations for vocational qualification level accreditation in Guangdong Province announced by the Human Resources and Social Security Department of Guangdong Province in July 2021, and has been approved for the accreditation for eight vocational skills, thus laying a foundation for the Group's expansion of the vocational qualification level accreditation business.

4) Developing international cooperation

The Group actively carries out international cooperation in running schools, introduces advanced vocational education and basic education resources and projects, and enhances the attractiveness of majors and courses and international characteristics through international cooperation. The Group explores cooperation with overseas colleges and institutions for higher education (focusing on colleges and institutions in Hong Kong, Macau, Singapore, the European Union and other countries and regions).

5) A new development pattern of "Five-in-One"

On the basis of the steady development, quality improvement and upgrading of the vocational education entities, the Group is actively exploring and expanding the five major sectors, namely training, dispatch, health, e-commerce and public welfare, and shifting from an academic education-oriented model to a new development pattern of "five-in-one" driven by "academic education + vocational training + technical services".

Financial Review

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group's revenue is consisted of tuition fees, boarding fees and other education service fees its schools collected from students.

The Group's revenue increased by approximately 3.3% from approximately RMB499.6 million for the year ended 31 December 2021 to approximately RMB516.3 million for the Reporting Period. The increase was primarily due to (i) an increase in tuition fees as a result of the increase in total full-time student enrollment and the increase in the average tuition fees during the Reporting Period; and (ii) an increase in continuing education programs during the Reporting Period.

Cost of sales

Cost of sales consists primarily of (i) staff costs; (ii) depreciation of property, plant and equipment; (iii) depreciation of right-of-use assets; (iv) amortization of other intangible assets; (v) cost of cooperative education; (vi) utilities; (vii) teaching expenditures; and (viii) student study and practice fees.

The Group's cost of sales increased by approximately 7.2% from approximately RMB298.0 million for the year ended 31 December 2021 to approximately RMB319.4 million for the Reporting Period. The increase was primarily due to (i) an increase in cost of cooperative education due to the expansion of cooperative education scale under the adult education business segment; (ii) an increase in depreciation of property, plant and equipment, amortization of other intangible assets and depreciation of right-of-use assets in line with the expansion of the Group's school operating scale during the Reporting Period; and (iii) an increase in student study and practicing fees.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 2.4% from approximately RMB201.6 million for the year ended 31 December 2021 to approximately RMB196.8 million for the Reporting Period and the Group's gross profit margin decreased from approximately 40.4% to approximately 38.1% during the same periods. The decrease of gross profit margin was mainly due to (i) an increase in the operation costs from the expansion of cooperative education scale under the adult education business segment; and (ii) an increase in depreciation of property, plant and equipment and amortization of other intangible assets in line with the expansion of the Group's school operating scale during the Reporting Period.

Other income and gains

Other income and gains consist primarily of (i) bank interest income; (ii) rental income; (iii) training income; (iv) government grants; (v) brand licensing income; (vi) fair value gain; and (vii) loan interest income.

The Group's other income and gains decreased by approximately 23.4% from approximately RMB112.2 million for the year ended 31 December 2021 to approximately RMB86.0 million for the Reporting Period. The decrease was primarily due to (i) a decrease of RMB19.3 million in rental income; (ii) a decrease of RMB10.7 million in gain resulting from termination of leases; and (iii) a decrease of RMB8.5 million in gains from disposal items of property, plant and equipment as the Group disposed certain properties during the year ended 31 December 2021.

Selling and distribution expenses

Selling and distribution expenses refer to costs incurred for the purpose of marketing and student recruitment, including staff costs, advertising expenses, admission expenses, office expenses and others.

The Group's selling and distribution expenses increased by approximately 11.0% from approximately RMB19.1 million for the year ended 31 December 2021 to approximately RMB21.2 million for the Reporting Period. The increase was primarily due to an increase in staff costs as a result of increase in bonus of the marketing staff during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of (i) staff costs and welfare; (ii) depreciation and amortisation; (iii) office expenses; and (iv) consulting expenses.

The Group's administrative expenses decreased by approximately 19.3% from approximately RMB94.1 million for the year ended 31 December 2021 to approximately RMB75.9 million for the Reporting Period. The decrease was primarily due to a decrease of RMB25.4 million in listing expenses.

Other expenses

Other expenses consist primarily of (i) cost for rental income; and (ii) cost for training income.

The Group's other expenses decreased by approximately 7.5% from approximately RMB25.4 million for the year ended 31 December 2021 to approximately RMB23.5 million for the Reporting Period. The decrease was primarily due to a decrease of cost for rental income in line with the decrease of rental income during the Reporting Period.

Finance costs

Finance costs primarily consist of the interest expenses for its bank and other borrowings and lease liabilities.

The Group's finance costs decreased by approximately 21.3% from approximately RMB17.8 million for the year ended 31 December 2021 to approximately RMB14.0 million for the Reporting Period. The decrease was mainly in line with the decrease in interest-bearing bank and other borrowings from RMB268.4 million to RMB211.6 million.

Profit for the year

As a result of the above factors, profit for the year of the Group decreased by approximately 7.1% from approximately RMB153.9 million for the year ended 31 December 2021 to approximately RMB142.9 million for the Reporting Period.

Financial and Liquidity Position

Current assets and current liabilities

As at 31 December 2022, the Group had net current asset of approximately RMB46.3 million, decreased by approximately 77.7% from RMB207.5 million as at 31 December 2021. The Group had net current assets as at such date primarily because (i) the Group used a large amount of cash to finance the expansion of its school facilities at Qingyuan Campus. The capital expenditures and prepayments, which are recorded as non-current assets, were partially financed by non-current liabilities, such as long-term interest bearing bank and other borrowings, and by current liabilities, such as contract liabilities, short-term interest-bearing bank and other borrowings; and (ii) the Group had large amounts of current liabilities, such as other payables and accruals as it incurred large amounts of payables for purchases of property, plant and equipment as a result of the continued improvement of its school facilities and teaching equipment.

The Group's current assets as at 31 December 2022 decreased by RMB102.4 million to approximately RMB528.9 million from approximately RMB631.3 million as at 31 December 2021. The decrease in current assets was primarily attributable to a decrease in bank deposit as a result of repayment of bank loans during the Reporting Period.

The Group's current liabilities increased by RMB58.8 million from approximately RMB423.8 million as at 31 December 2021 to approximately RMB482.6 million as at 31 December 2022, mainly reflecting: (i) an increase in contract liabilities of approximately RMB25.7 million as a result of the increase of tuition fee collected from students in 2022/2023 school year; and (ii) an increase of approximately RMB27.5 million in other payables and accruals as at 31 December 2022 due to (a) an increase of payables to construction and maintainance of the school; and (b) an increase of national scholarship in line with the increase in total full-time student enrollment.

Indebtedness

Interest-bearing bank and other borrowings primarily consisted of short-term working capital loans to supplement its working capital and finance its expenditure and long-term project loans for the continuous development of its school buildings and facilities.

The Group's interest-bearing bank and other borrowings amounted to approximately RMB211.6 million as at 31 December 2022, dominated in RMB. As at 31 December 2022, the Group's interest-bearing bank and other borrowings bore effective interest rates ranging from 5.2% to 6.8% per annum.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations and bank and other borrowings. The Group regularly assesses its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Financial assets at fair value through profit or loss

During the Reporting Period, the Group invested in wealth management products issued by banks in China. These wealth management products primarily include (i) principal-guaranteed financial products with floating returns and (ii) principal unprotected financial products with floating returns. The Group made investments in these wealth management products as part of its cash management strategy in order to obtain higher yields than it would typically receive from regular bank deposits. These wealth management products the Group invested in during the Reporting Period were denominated in RMB, generally have maturity within three months and can be redeemed by the Group on any business day upon maturity. The expected yield rate of these wealth management products ranged from approximately 1.3% to 3.2% per annum.

The Group's wealth management products decreased by approximately 100% from approximately RMB70.0 million as at 31 December 2021. The decrease was primarily due to the redemption of financial products.

Contingent liabilities and guarantees

As at 31 December 2022, the Group did not have any unrecorded significant contingent liabilities, guarantees or any material litigation against any member of the Group (31 December 2021: nil).

Pledge of assets

As at 31 December 2022, certain of the Group's bank loans were secured by the pledge of the Group's time deposits amounting to RMB30 million (31 December 2021: nil).

Foreign exchange exposure

All of the Group's revenue and the majority of its expenditures are denominated in RMB. As at 31 December 2022, majority of the Group's bank balances were denominated in RMB. The Group currently does not have any foreign currency hedging policies. The management will continue to assess the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Gearing ratio

The gearing ratio, which is calculated by using total interest-bearing bank and other borrowings divided by total equity, decreased to approximately 13.8% as at 31 December 2022 from approximately 18.4% as at 31 December 2021, mainly due to a decrease of the Group's interest-bearing bank and other borrowings.

Employment, Remuneration Policy and Training

As at 31 December 2022, the Group had a total of 1,342 employees. Employees of the Group are remunerated based on their performance, experience and prevailing industry practices, with all compensation policies and packages reviewed on a regular basis. The remuneration of the Group's employees includes salaries and allowances. As required by the PRC laws and regulations, the Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance.

The Group also emphasises employee trainings and career development, and invests in the education and training programs for its employees with the purpose of upgrading their knowledge on the latest trends and developments of the industry.

CHANGE IN USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds (the "**Net Proceeds**") from the global offering of ordinary shares, after deducting underwriting commission and other expenses, were approximately HK$446.0 million.

For reasons set out in the paragraph headed "Reasons for and Benefits of the Change in Use of Proceeds" below, the Board has resolved to change the use of proceeds originally planned to for the use under the items "acquiring additional land of approximately 400,200 sq.m." by reallocating to "constructing additional teaching and administrative facilities and purchasing teaching equipment" and "acquire other schools and educational service providers to expand the school network".

The following table sets forth a summary of the utilisation of the Net Proceeds and the revised allocation of the Net Proceeds:

Purpose	**Planned portion**	**Planned Net Proceeds** *HK$' Million*	**Utilised amount during the year ended 31 December 2022** *HK$' Million*	**Utilised amount up to 31 December 2022** *HK$' Million*	**Unutilised amount up to 31 December 2022** *HK$' Million*	**Revised portion**	**Re-allocation of the unutilised Net Proceeds** *HK$' Million*	**Expected timeline**
Further increase student capacity of the schools with an aim to upgrade Lingnan Institute of Technology from an associate college to a vocational university								
– Acquiring additional land of approximately 400,200 sq.m.	55.0%	245.3	–	–	245.3	47.0%	209.6	2022-2023
– Constructing additional teaching and administrative facilities and purchasing teaching equipment	12.0%	53.5	–*	53.5	–	14.1%	9.5	2022-2023
– Constructing an industry and education integrated industrial park	3.0%	13.4	–	1.7	11.7	3.0%	11.7	2022-2023
Acquire other schools and educational service providers to expand the school network	20.0%	89.2	74.4*	74.4*	14.8	25.9%	41.0	2022-2023
Working capital	10.0%	44.6	16.6	44.6	–	10.0%	–	N/A
Total	100%	446.0	91.0	174.2	271.8	100%	271.8	

Note:

* As disclosed in the prospectus of the Company dated 30 June 2021, the Group prefers to acquire qualified private vocational education institutions, including those in the Greater Bay Area; and in the event the Group is unable to identify any suitable acquisition target or complete the acquisition within a reasonable period of time, the Group will use the amount of the Net Proceeds designated for acquisition to expand Qingyuan Campus by acquiring additional land and construct new teaching and administrative facilities in order to increase student capacity in our Qingyuan Campus. As at 31 December 2022, the Net Proceeds of HK$70.8 million had been utilised for constructing additional teaching and administrative facilities and purchasing teaching equipment.

Reasons for and Benefits of the Change in Use of Proceeds

The Board is of the view that the use of proceeds should be appropriately adjusted to maintain maximum flexibility for better accommodation to the changing market conditions and industry environment. The Company has been actively exploring various strategic acquisition opportunities since 2022, but has not identified suitable acquisition opportunities for both additional land and other schools and educations providers.

Accordingly, in order to improve the efficiency of the use of proceeds, reduce financial expenses and align with the Company's strategic objectives, taking into account the sequence of the original use of the Net Proceeds, the Company intended to adjust the planning and proportion of the use of unutilised Net Proceeds. Based on the interests of the Company and its shareholders as a whole and in light of market conditions and the Company's business needs, the Company intended to reallocate the balance of the proceeds of HK$35.7 million designated for acquiring additional land to expand Qingyuan Campus to (i) enhance constructing additional teaching and administrative facilities and purchasing teaching equipment of the Group with HK$9.5 million; and (ii) acquire other schools and educational service providers to expand the school network with HK$26.2 million.

The Group will continue to explore different acquisition opportunities bringing values to the Group. In the event that there are suitable acquisitions in the future, the Company shall still use the designated Net Proceeds and its own funds for the acquisitions, and the Company's acquisition strategy will not be affected because of the change in the use of the Net Proceeds.

The Board considers that the proposed change in use of the Net Proceeds will not have any material adverse impact on the operations of the Group and is in the interests of the Company and the shareholders of the Company as a whole. The Board will closely monitor the utilisation of the Net Proceeds. Save as disclosed in this announcement, there is no other change in the use of the Net Proceeds. Should there be any further change in the use of the Net Proceeds, further announcement(s) will be made by the Company as and when appropriate.

OTHER INFORMATION

Events after the Reporting Period

The Company did not have any events that should be brought to the attention of the shareholders of the Company from the end of the Reporting Period and up to the date of this announcement.

Final Dividend

The Board does not recommend any dividend in respect of the year ended 31 December 2022 (2021: RMB60.6 million).

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2022.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

In March 2022, the Group entered into an agreement to acquire 80% equity interests in Qingyuan Lingnan Driving School Co. Ltd.* (清遠嶺南有家汽車培訓有限公司) at a total consideration of RMB3,600,000, which is mainly engaged in provision of driving training education and other services in the PRC. The acquisition is consistent with the Group's long-term policy to expand school networks and ancillary education business. The transaction was completed on 31 March 2022.

Save as disclosed herein, the Group did not hold any significant investment nor did the Group carry out any material acquisition or disposal of subsidiaries, associates, joint ventures or affiliated companies during the Reporting Period.

Future Plans for Material Investments and Investments in Capital Assets

Save as disclosed herein, as at 31 December 2022, the Group did not have any plans for material investments or investments in capital assets.

Corporate Governance Code

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has adopted corporate governance practices based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance practices. During the Reporting Period, the Company has complied with all code provisions of the CG Code.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct governing Directors' securities transactions. The Company confirms that, having made specific enquiries of all the Directors, each of them has complied with the required standard as set out in the Model Code during the Reporting Period.

Audit Committee

The Audit Committee has reviewed, together with the management, the accounting principles and policies adopted by the Group, and discussed, among other things, auditing and financial reporting matters including a review of the consolidated results of the Group for the year ended 31 December 2022.

Scope of Work of Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance conclusion has been expressed by Ernst & Young on the preliminary announcement.

Public Float

As at the date of this announcement, the Company had maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Annual General Meeting

The annual general meeting of the Company (the "**AGM**") will be held on Tuesday, 30 May 2023. Shareholders should refer to the circular of the Company, the notice of AGM and the enclosed form of proxy to be dispatched by the Company for details regarding the AGM.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 24 May 2023 to Tuesday, 30 May 2023, both days inclusive, during which period no share transfers can be registered. In order to be eligible for attending and voting at the AGM, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Tuesday, 23 May 2023.

Publication of Annual Results Announcement and Annual Report

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.scvedugroup.com, respectively. The annual report of the Company for the Reporting Period containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in due course.

Acknowledgement

The Board would like to express its sincere gratitude to the Group's management and staff members for their dedication and hard work as well as the shareholders of the Company, business partners, bankers and auditors for their support to the Group throughout the Reporting Period.

By order of the Board
South China Vocational Education
Group Company Limited
He Huishan
Chairman

Hong Kong, 30 March 2023

In this announcement, the English translation of company or entity names in Chinese which are marked with "" is for identification purpose only.*

As at the date of this announcement, the Board of Directors of the Company comprises Mr. He Huishan, Ms. He Huifen and Mr. Lao Hansheng as executive Directors; and Mr. Luo Pan, Mr. Yeh Zhe-Wei and Mr. Ma Shuchao as independent non-executive Directors.