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China Vocational Education Holdings Limited
中國職業教育控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1756)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED AUGUST 31, 2023

HIGHLIGHTS

	As at August 31, 2023	As at August 31, 2022	Change	Percentage change
Number of Schools	3	3	–	–
Student enrollment	52,740	47,131	5,609	11.9%
	Year ended August 31, 2023 (RMB'000)	Year ended August 31, 2022 (RMB'000)	Change (RMB'000)	Percentage change
Revenue	1,083,304	907,762	175,542	19.3%
Gross profit	624,604	482,151	142,453	29.5%
Profit for the year	393,047	259,784	133,263	51.3%
Adjusted net profit ⁽¹⁾	405,132	263,838	141,294	53.6%
Earnings per share (RMB)	0.328	0.216	0.112	51.9%
Gross profit ratio	57.7%	53.1%	4.6	
Operating profit ratio	45.8%	42.3%	3.5	
Net Profit ratio	36.3%	28.6%	7.7	
Adjusted Net Profit ratio ⁽²⁾	37.4%	29.1%	8.3	

Notes:

- (1) Adjusted net profit is a non-HKFRSs financial measure, which is derived from the profit for the year after adjusting imputed interest expenses on discount of long-term borrowings and long-term interest payables due to a related party, net exchange gains/(losses), imputed interest expenses on discount of compensation payable for the Conversion of Huali College and fair value gains on investment properties.
- (2) Adjusted net profit ratio under non-HKFRS financial measures for the year is calculated on adjusted net profit under non-HKFRS financial measures for the year divided by revenue for the respective year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue mainly represents income derived from tuition fees and boarding fees for the education services provided in the normal course at its PRC operating schools. For the year ended August 31, 2023, the Group's revenue was approximately RMB1,083.3 million, representing an increase of approximately 19.3% year-on-year from approximately RMB907.8 million for the corresponding period of last year, which was attributable to the increases in both student enrollment and average tuition fees during the Reporting Period.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortization, joint tuition support fees, school consumables, property management and maintenance fees, utilities expenses and others. For the year ended August 31, 2023, the Group's cost of sales amounted to approximately RMB458.7 million, increased by approximately 7.8% year-on-year from approximately RMB425.6 million for the year ended August 31, 2022.

Gross Profit and Gross Profit Margin

For the year ended August 31, 2023, the Group recorded a gross profit of approximately RMB624.6 million, representing an increase of approximately 29.5% year-on-year from approximately RMB482.2 million for the year ended August 31, 2022. For the year ended August 31, 2023, the Group achieved a gross profit margin of 57.7% representing an increase of 4.5% year-on-year as compared with the corresponding period of last year. The growth in gross profit was mainly attributable to the increasing student enrollment and average tuition fees, while partially offset by the increase in cost of sales for the year ended August 31, 2023.

Selling Expenses

Selling expenses, primarily consisting of marketing staff costs, promotion expenses and other expenses, decreased by approximately 13.2% from approximately RMB19.9 million for the year ended August 31, 2022 to approximately RMB17.3 million for the year ended August 31, 2023, which was due to a decrease in promotion expenses resulting from the change in marketing strategies for the 2022/2023 academic year.

Administrative Expenses

Administrative expenses primarily consist of administrative staff costs, office expenses, traveling and entertainment expenses, depreciation of property, plant and equipment relating to office buildings and right-of-use assets, utilities expenses, auditors' remuneration and other miscellaneous expenses. Administrative expenses increased by approximately 29.3%, from RMB115.2 million for the year ended August 31, 2022 to approximately RMB149.0 million for the year ended August 31, 2023.

Other Income

Other income primarily consists of site use and relevant service income, rental income, service income of school-enterprise cooperation projects, government subsidies, bookselling income and others. For the year ended August 31, 2023, the Group recorded other income of approximately RMB37.4 million, representing an increase of approximately 4.2% year-on-year from approximately RMB35.9 million for the year ended August 31, 2022.

Other Gains – Net

Other gains – net primarily consist of net exchange gains/(losses), losses on disposals of property, plant and equipment and intangible assets, fair value gains on investment properties and others. For the year ended August 31, 2023, the Group's other gains-net amounted to approximately RMB0.3 million, representing a decrease of approximately RMB0.8 million year-on-year compared with approximately RMB1.1 million of other gains-net for the year ended August 31, 2022.

Finance Expenses – Net

The Group's finance expenses – net include interest expenses on bank and other borrowings (after deducting amounts capitalized in the cost of property, plant and equipment), imputed interest expenses on discount of long-term other borrowings and long-term interest payables due to a related party, imputed interest expenses on discount of compensation payable for the Conversion of Huali College, interest income generated from bank deposits and others. For the year ended August 31, 2023, the Group recorded finance expenses of approximately RMB103.5 million, representing a decrease of approximately 6.9% year-on-year as compared with approximately RMB111.1 million for the year ended August 31, 2022, which was mainly attributable to the decrease in imputed interest expenses on discount of long-term payables for property, plant and equipment and interest expense on bank borrowings during the year ended August 31, 2023. For the year ended August 31, 2023, the Group recorded finance income of approximately RMB5.7 million, representing a decrease of approximately 5.8% year-on-year as compared with approximately RMB6.1 million for the year ended August 31, 2022.

Profit Before Taxation

For the year ended August 31, 2023, the Group recorded a profit before taxation of approximately RMB398.2 million, representing an increase of approximately 42.8% year-on-year from approximately RMB278.9 million for the year ended August 31, 2022.

Taxation

For the year ended August 31, 2023, the Group recorded approximately RMB5.2 million in taxation, representing a decrease of approximately 73.0% year-on-year from approximately RMB19.2 million for the year ended August 31, 2022. As of August 31, 2023, the Group did not have any taxation related disputes with any authorities, or any other unresolved taxation issues.

Adjusted Net Profit

Adjusted net profit under non-HKFRSs financial measures is defined as profit for the year attributable to owners of the Company excluding imputed interest expenses on discount of long-term borrowings and long-term interest payables due to a related party, net exchange gains/(losses), imputed interest expenses on discount of compensation payable for the Conversion of Huali College and fair value gains on investment properties. As such items are non-recurring in nature and not related to the performance of the Group's operation, the Directors consider that the presentation of the Group's adjusted net profit under non-HKFRSs financial measures by eliminating the impact of certain non-recurring items can reflect the operational performance better during the respective years. Furthermore, the Group's management also uses the non-HKFRSs financial measures to assess the Group's operating performance and formulate business plans. The Group believes that the non-HKFRSs financial measures provide useful information to the investors about its core business operations, which they can use to evaluate the Group's operating results and understand its consolidated results of operations in the same manner as the management.

Adjusted net profit is calculated by adjusting profit for the Reporting Period of approximately RMB393.0 million (year ended August 31, 2022: approximately RMB259.8 million), interest expenses on discount of other borrowings and interest payable due to a related party of approximately RMB9.2 million (year ended August 31, 2022: nil), net exchange losses of approximately RMB0.1 million (year ended August 31, 2022: gains of approximately RMB0.5 million), interest expenses on discount of compensation payable for the Conversion of Huali College of approximately RMB2.8 million (year ended August 31, 2022: RMB4.7 million), and fair value gains on investment properties of approximately RMB0.1 million (year ended August 31, 2022: approximately RMB0.2 million). The Group's adjusted net profit increased by approximately 53.6% from approximately RMB263.8 million for the year ended August 31, 2022 to approximately RMB405.1 million for the year ended August 31, 2023.

Property, Plant and Equipment

As at August 31, 2023, the Group's property, plant and equipment amounted to approximately RMB4,639.9 million, representing an increase of approximately 11.7% year-on-year from approximately RMB4,152.6 million recorded as at August 31, 2022. Such increase was a result of the establishment of new campuses in Jiangmen, Guangdong Province, including the construction of Jiangmen campus of Huali College and the construction of Jiangmen campus of Huali Technician College, and expansion of new dormitories in Zengcheng, Guangdong Province.

Capital Expenditures

For the year ended August 31, 2023, the Group recorded approximately RMB570.1 million in capital expenditures, representing a decrease of approximately 5.8% from approximately RMB605.4 million for the year ended August 31, 2022, which was mainly due to the decrease in the expenditure for constructing new campus buildings for the year ended August 31, 2023 as compared with the corresponding period of last year.

Bank Balances and Cash

As at August 31, 2023, the Group had bank balances and cash of approximately RMB987.9 million, representing an increase of approximately 22.7% from approximately RMB805.3 million as at August 31, 2022.

Liquidity, Financial Resources and Debt Ratio

As at August 31, 2023, the Group had liquid funds (representing bank balances and cash) of approximately RMB987.9 million (August 31, 2022: RMB805.3 million) and borrowings of approximately RMB2,445.8 million (August 31, 2022: RMB2,449.4 million). The Group's debt ratio as at August 31, 2023, represented by borrowings as a percentage of total assets, was 33.6% (August 31, 2022: 36.7%).

Foreign Exchange Risk Management

For the Group's operation in the PRC, the major revenue and expenses are denominated in RMB, while there are certain monetary assets and monetary liabilities that are denominated in Hong Kong dollars and United States dollars, which would expose the Group to foreign exchange risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when such need arises.

Material Acquisitions and Disposals

The Group did not have any material acquisitions or disposals for the year ended August 31, 2023.

Charge on the Group's Assets

As at August 31, 2023, the Group pledged the charging right of the service fees from Huali Technician College, Huali Vocational College and Huali College, owned by a group entity according to the contractual arrangements and the equity interest of certain group entities as securities for the banking facilities granted to the Group. Save as disclosed above, there was no other material charge on the Group's assets as at August 31, 2023.

Contingent Liabilities

As at August 31, 2023, the Group had no significant contingent liabilities.

BUSINESS OVERVIEW

We are a leading large-scale private higher education and vocational education group in South China, offering applied science-focused and practice-oriented programs. As at August 31, 2023, we had an aggregate of 52,740 students enrolled at our three schools, namely Huali College, Huali Vocational College and Huali Technician College.

Our schools offer private higher education and private vocational education in a wide range of fields in applied sciences with an aim to prepare our students with the necessary knowledge base, skill sets and accreditations to secure jobs and pursue careers in particular professions, trades and industries. As at August 31, 2023, we offered 38 undergraduate majors and 1,850 undergraduate programs, 48 junior college majors and 785 junior college programs, 28 vocational majors and 1,244 vocational programs.

Our Schools

We operate three schools in Guangdong Province, all of which grant government accredited degrees or certifications, including:

- Huali College (including Zengcheng campus and Jiangmen campus): a private general undergraduate college, offering four- to five-year undergraduate programs⁽¹⁾ granting bachelor degrees accredited by the MOE;
- Huali Vocational College (including Zengcheng campus and Yunfu campus): a formal higher education institution, offering three-year vocational programs granting junior college diplomas accredited by the MOE; and
- Huali Technician College (including Zengcheng campus and Yunfu campus): a private technician school primarily offering three-year, full-time vocational programs⁽²⁾ granting technician diplomas of Huali Technician College, accredited by the Department of Human Resources and Social Security of Guangdong Province, and short-term intensive vocational programs.

Notes:

- (1) Generally, Huali College offers four-year undergraduate programs and a five-year undergraduate program in architecture.
- (2) Generally, Huali Technician College offers three-year vocational programs as well as two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas.

Student Enrollment

As at August 31, 2023, we had an aggregate of 52,740 students⁽¹⁾ enrolled in our three schools, comprising 21,567 students at Huali College, 20,532 students at Huali Vocational College and 10,641 students at Huali Technician College.

School	As at August 31, 2023	As at August 31, 2022	Change	Percentage Change
Huali College	21,567	17,622	3,945	22.4%
Zengcheng campus	20,482	17,080	3,402	19.9%
Jiangmen campus	1,085	542	543	100.2%
Huali Vocational College	20,532	18,338	2,194	12.0%
Zengcheng campus	12,332 ⁽²⁾⁽³⁾	13,380 ⁽⁴⁾⁽⁵⁾	(1,048)	(7.8%)
Yunfu campus	8,200	4,958	3,242	65.4%
Huali Technician College	10,641	11,171	(530)	(4.7%)
Zengcheng campus	9,155	9,377	(222)	(2.4%)
Yunfu campus	1,486	1,794	(308)	(17.2%)
Total	<u>52,740</u>	<u>47,131</u>	5,609	11.9%

Notes:

- (1) Including 347 students of Huali Technician College who also take junior college courses at Huali Vocational College (the “**Continuing Education Program**”) and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. Each student participating in the Continuing Education Program is required to pay an additional tuition fee of RMB3,000 to Huali Vocational College. In order to reflect such business practice, the number of students of Huali Technician College who also participate in the Continuing Education Program was included in the number of students of Huali Vocational College, and the revenue from the additional tuition fees paid for the Continuing Education Program was fully included in the revenue from tuition fees of Huali Vocational College and Huali Technician College.
- (2) Including 1,791 students who are social personnel enrolled under the national policy of enrollment expansion of Higher Vocational Education, having passed the exam designed independently by Huali Vocational College. These students shall pay a tuition fee of RMB8,000 per academic year to Huali Vocational College, and take junior college courses mainly on-line and obtain a junior college diploma awarded by Huali Vocational College upon graduation (the “**Enrollment Expansion Program**”).
- (3) Including 347 students of Huali Technician College who also participate in the Continuing Education Program.
- (4) Including 633 students of Huali Technician College who also participate in the Continuing Education Program.
- (5) Including 2,822 students who also participate in the Enrollment Expansion Program.

Tuition Fees and Boarding Fees

For the year ended August 31, 2023, the Group's schools recorded revenue growth, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB907.8 million for the year ended August 31, 2022 to RMB1,083.3 million for the year ended August 31, 2023. The Group typically charges students fees comprising tuition fees and boarding fees. Tuition fees remained as the Group's major revenue for the year ended August 31, 2023, accounting for approximately 93.0% of the total revenue of the Group for the year ended August 31, 2023.

The table below summarizes the amount of revenue generated from the tuition fees and boarding fees charged by the Group for the years indicated:

	As at August 31, 2023 <i>(RMB'000)</i>	As at August 31, 2022 <i>(RMB'000)</i>	Change <i>(RMB'000)</i>	Percentage Change
Tuition fees				
Huali College	623,464	482,689	140,775	29.2%
Huali Vocational College	275,667	236,685	38,982	16.5%
Huali Technician College	108,752	117,096	(8,344)	(7.1%)
	<u>1,007,883</u>	<u>836,470</u>	171,413	20.5%
Boarding fees				
Huali College	42,105	28,568	13,537	47.4%
Huali Vocational College	21,962	25,610	(3,648)	(14.2%)
Huali Technician College	11,354	17,114	(5,760)	(33.7%)
	<u>75,421</u>	<u>71,292</u>	4,129	5.8%
Total Revenue	<u>1,083,304</u>	<u>907,762</u>	175,542	19.3%

The increase in the total revenue of the Group for the year ended August 31, 2023 was mainly due to the increase in student enrollment and average tuition fees.

The following table sets forth the information relating to student enrollment and average tuition fees per student for the financial years for each of our schools, respectively:

School	Student Enrollment		Average Tuition Fees	
	Academic Year ⁽¹⁾		per student ⁽²⁾	
	2022/2023	2021/2022	Year Ended August 31	
			2023	2022
			(RMB)	(RMB)
Huali College	21,567	17,622	28,908	27,391
Zengcheng campus	20,482	17,080	–	–
Jiangmen campus	1,085	542	–	–
Huali Vocational College	20,532	18,338	13,426	12,907
Zengcheng campus	12,332	13,380	–	–
Yunfu campus	8,200	4,958	–	–
Huali Technician College	10,641	11,171	10,220	10,482
Zengcheng campus	9,155	9,377	–	–
Yunfu campus	1,486	1,794	–	–
Total	52,740	47,131	19,110	17,748

Notes:

- (1) Except as specified otherwise in this announcement, we present our business operating data as at August 31 for each of the academic years.
- (2) Average tuition fees represent the revenue from tuition fees for the relevant financial year divided by the student enrollment for the corresponding academic year.

The following table sets out the tuition fee rates of our schools for the 2021/2022 and 2022/2023 academic years:

School	Tuition fee rates ⁽¹⁾ in academic year	
	2022/2023	2021/2022
	(RMB)	(RMB)
Huali College		
Four-to five-year undergraduate program ⁽²⁾	25,500-34,800	28,800-32,800
– Zengcheng campus	25,500-34,800	28,800-32,800
– Jiangmen campus	28,800-31,800	28,800-29,800
International program	26,500-36,800	36,800
Bilingual program	27,500-31,800	31,800
Huali Vocational College		
Three-year junior college program	9,880-25,880	9,880-19,880
– Zengcheng campus	16,880-25,880	16,880-19,880
– Yunfu campus	9,880-15,880	9,880-12,880
International program	25,880	25,880-30,880
Bilingual program	Not applicable	12,880
Huali Technician College		
Three-year vocational program ⁽³⁾	6,800-15,300	6,800-15,100
– Zengcheng campus	10,000-15,300	9,800-15,100
– Yunfu campus	6,800-8,100	6,800-8,100

Notes:

- (1) Tuition fee rates shown above for all of our schools are applicable to students admitted in the relevant academic year only.
- (2) Generally, Huali College offers four-year undergraduate programs, and a five-year undergraduate program in architecture.
- (3) Generally, Huali Technician College offers three-year vocational programs, as well as two-year, four-year and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College. In addition, we offer students at Huali Technician College a dual-diploma program, in which students are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for adults.

During the year ended August 31, 2023, our boarding fee rates ranged from RMB700 to RMB14,000 per academic year depending on the location, room size and number of students housed in each room.

School Utilization Rate

School utilization rate is calculated by dividing the number of boarding student enrollment in a particular academic year by the school capacity in the same academic year. The school capacity of each campus is calculated by the number of beds available in student dormitories. The following table sets out the school utilization rate of our schools for the 2021/2022 and 2022/2023 academic years:

	Academic year	
	2022/2023	2021/2022
Zengcheng campus		
School capacity	29,556	28,971
School utilization rate	85.2%	80.9%
Yunfu campus		
School capacity	7,590	8,635
School utilization rate	75.6%	68.2%
Jiangmen campus		
School capacity	2,072	2,340
School utilization rate	90.9%	23.2%

Awards and Recognitions Received During the Reporting Period

The Company and the three schools received numerous awards and recognitions during the Reporting Period in recognition of the quality of education we provide and the outstanding achievements of our operations. The following table sets forth some of the awards and recognitions we have received:

	Award/ Recognition	Awarding Organization(s)	Awarded Entity
September, 2022	Outstanding Unit for Science Popularization Work (科普工作優秀單位)	Guangzhou Joint Conference Office for Science Popularization Work (廣州市科普工作聯席會議辦公室)	Huali College

	Award/ Recognition	Awarding Organization(s)	Awarded Entity
September, 2022	2021 Higher Vocational Education Teacher Teaching Innovation Team - Big Data and Accounting Major Teacher Teaching Innovation Team (2021年高職教育教師教學創新團隊-大數據與會計專業教師教學創新團隊)	Department of Education of Guangdong Province (廣東省教育廳)	Huali Vocational College
September, 2022	Guangdong Provincial Green School (廣東省綠色學校)	Department of Education of Guangdong Province (廣東省教育廳)	Huali Vocational College
December, 2022	Second Prize of Guangdong University's New Media Influence (Vocational and Technical Group) (廣東高校新媒體影響力(高職高專組)二等獎)	Guangdong University New Media Alliance (廣東高校新媒體聯盟)	Huali Vocational College
December, 2022	2022 Innovation Award for College Employment Work (2022年度高校就業工作創新獎)	www.eol.cn (中國教育線上)	Huali Vocational College
January, 2023	the Third Batch of Water-saving Universities in Guangdong Province (廣東省第三批節水型高校)	Department of Water Resources of Guangdong Province (廣東省水利廳)	Huali College
January, 2023	2022 Advanced Unit of Vocational Ability Construction in Guangdong Province (2022年度廣東省職業能力建設先進單位)	Guangdong Vocational Ability Construction Association (廣東省職業能力建設協會)	Huali Technician College

	Award/ Recognition	Awarding Organization(s)	Awarded Entity
January, 2023	Excellent Organizational Unit for the First National Defense Education Feature Promotion and Exhibition of Guangdong Provincial Technical Colleges (廣東省技工院校第一屆國防教育特色推優展示優秀組織單位)	Guangdong Vocational Training and Vocational Education Association (廣東省職業培訓和技工教育協會)	Huali Technician College
March, 2023	2022 Two-Star Unit of Charity Impact in Zengcheng District (增城區2022年度慈善影響力二星級單位)	Guangzhou Zengcheng District Civil Affairs Bureau, Guangzhou Zengcheng District Suitable Support Office, Guangzhou Zengcheng District Charity Association (廣州市增城區民政局、廣州市增城區對口支援辦公室、廣州市增城區慈善會)	Huali College
May, 2023	Excellent Award for Recitation and Performance of Red Classic Theme in Private Universities in Guangdong Province (廣東省民辦高校紅色經典主題誦讀展演優秀獎)	Guangdong Private Education Association (廣東省民辦教育協會)	Huali College

OUTLOOK

The report of the 20th National Congress of the Communist Party of China and the “Guideline to Advance Reform and High-Quality Development of Modern Vocational Education” both stated that China will continue to give high priority to the development of education, promoting collaborative innovation in vocational education, higher education, and continuing education and promoting integration between vocational education and general education, between industry and education, and between science and education, in order to better establish vocational education as a category in the educational system. It aims to enhance the quality, adaptability, and popularity of vocational education to nurture more high-caliber technicians and skilled workers. With the favourable policies implemented in the education industry, the Group will continue to closely follow national policies, placing emphasis on connotation construction, vigorously foster our objective to educate and serve our students, and closely follow the direction of economic development to cultivate local regional economic-oriented skilled talents with high-quality. Meanwhile, we will also keep promoting campus construction, expanding our school campus, improving our teaching quality, providing high-quality services, and strengthening our brand effect to better enhance the profitability of our business. Moreover, while consolidating the construction of formal vocational education, the Group is also vigorously expanding its second curve of business of vocational education. The Group will focus on asset-light model by developing diversified non-formal vocational education business to achieve sustainable long-term development.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, the Company does not have other future plans for material investments or capital assets.

RECENT DEVELOPMENTS OF REGULATORY FRAMEWORK

Classification Registration

Our business is regulated by, among others, the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》). On November 7, 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (Order of the President of the PRC No. 55) (關於修改《中華人民共和國民辦教育促進法》的決定) (中華人民共和國主席令第55號) (the “**Amendment**”) was promulgated. The Amendment came into force on September 1, 2017. The Amendment establishes a new classification system for private schools by whether they are established and operated for profit-making purposes, and the sponsors of private schools may at their own discretion choose to establish non-profit or for-profit private schools.

According to the Implementing Measures on Classification Registration of Private Schools (《民辦學校分類登記實施細則》) promulgated on December 30, 2016, if an existing private school chooses to register as a non-profit private school, it shall amend its articles of association in accordance with the relevant laws, continue its school operation and complete new registration formalities. If an existing private school chooses to register as a for-profit private school, it shall make financial settlement of books of account, clarify the ownership of the schools' land, buildings accumulation with the consent of the relevant departments of the people's government at or below the provincial level, pay relevant taxes and fees, obtain new school operation licenses, apply for re-registration and continue the school operations.

The Amendment is silent on the specific measures regarding how existing schools can choose to become for-profit private schools, which, according to the Amendment, shall be regulated by the corresponding laws and regulations to be promulgated by the local government authorities. The Guangdong government has promulgated implementation regulations under the Amendment, including the Implementation Opinions of the Government of Guangdong Province on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《廣東省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) promulgated by the Government of Guangdong Province on April 24, 2018, the Implementation Measures for the Supervision and Administration of For-Profit Private Schools (《關於營利性民辦學校監督管理實施辦法》), which were issued jointly by the Department of Education of Guangdong Province, Department of Human Resources and Social Security of Guangdong Province and Department of Market Supervision and Administration of Guangdong Province and came into effect on December 30, 2018, and the Implementation Measures on Classification Registration of Private Schools (《關於民辦學校分類登記實施辦法》), which were issued jointly by the Department of Education of Guangdong Province, Department of Human Resources and Social Security of Guangdong Province, Department of Civil Affairs of Guangdong Province, Guangdong Provincial Committee of the Communist Party of China Organization Committee Office and Department of Market Supervision and Administration of Guangdong Province and came into effect on December 30, 2018.

The above local regulations provide a framework procedure for the classification and registration of existing private schools in relevant provinces as for-profit private schools or non-profit private schools, but do not further specify the process of classification and registration, for example, (i) when should we notify the relevant authorities regarding our decision for our schools to be for-profit or non-profit schools; (ii) the preferential tax treatments that may be enjoyed by a for profit school or a non-profit school, respectively; (iii) whether respective public funding can be obtained by a for-profit school and a non-profit school; and (iv) respective costs for a for-profit and a non-profit school to obtain land use rights.

Under the existing regulatory environment and based on the current interpretation of the Amendment and the relevant implementing regulations, we intend to register our three schools as for-profit private schools subject to further detailed local rules and regulations regarding the conversion of existing schools as and when promulgated and brought into effect by relevant local government authorities.

There are uncertainties regarding the interpretation and application of the Amendment with respect to various aspects of the operations of private schools, such as the respective preferential tax treatment which may be enjoyed by for-profit private schools and non-profit private schools. Accordingly, as of the date of this announcement, we were not able to fully evaluate or quantify the potential impact that the implementation of the Amendment may have on our business operations.

The Implementation Rules

On April 7, 2021, the State Council issued the Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》) (the “**Implementation Rules**”) and the Implementation Rules have been effective from September 1, 2021.

Based on our current understanding and interpretation of the Implementation Rules, there would not be any substantive implications on the legal framework of any of our PRC operation. We intend to register our three schools as for-profit private schools in light of the Amendment and the relevant implementing regulations in effect.

Pursuant to the Implementation Rules, public schools shall not sponsor or participate in sponsoring for-profit private schools while public schools of vocational education could absorb the capital, technology, management and other elements of enterprises to sponsor or participate in sponsoring for-profit private schools of vocational education.

In addition, the Implementation Rules will not have any impact on our expansion strategy through acquisition.

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

Subsequent to the year end date, to optimise the debt structure and lower the financing cost, the Group obtained two new ten-year bank loan facilities of totalling RMB610,000,000 from a bank. As of the date of the announcement, the Group had drawn down new loan of RMB610,000,000 from the new bank facilities to replace its existing borrowings.

Save as disclosed above, there was no significant event affecting the Company nor any of its subsidiaries after the Reporting Period and as of the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

Recruitment

We strictly comply with the PRC Labor Law, the PRC Labor Contract Law, the PRC Employment Promotion Law, the PRC Labor Dispute Mediation and Arbitration Law as well as other applicable provincial and local labor laws and regulations in our recruitment process. We prohibit discrimination of staff by age, sex, race, nationality, religion or disability to ensure that everyone has equal employment opportunities and prospects.

We recruit teachers based on the size of our current student enrollment and the number of newly admitted students at the beginning of each academic year. We primarily seek to recruit (i) high quality and experienced teachers who are knowledgeable in both theory and practice and hold the necessary academic credentials and professional qualifications (i.e. diplomas and professional certificates); and (ii) teachers who have work experience in the relevant industries. We also invite industry experts from entities with which we have cooperative relationships to give lectures or teach classes as adjunct faculty members of our schools.

Our schools carry out their recruitment works based on our employee manual and our teachers' recruitment policy, and continuously improve and refine their recruitment processes. We actively approach talents through participating in talent recruitment fairs and industry conferences, and encourage our staff to take advantage of social media to refer and recommend talented candidates to join us. In addition, we provide continuing trainings to our teachers so that they can stay abreast of the changes in market demand, new teaching theories and/or methodologies, changing teaching and testing standards.

Remuneration

As at August 31, 2023, the Group had 2,447 employees (as at August 31, 2022: 2,131 employees). The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience and performance, contribution to the Group, prevailing market rate and our remuneration policy.

The remuneration policy of our schools is formulated under the guidance of PRC laws and is based on industry characteristics as well as various market factors. The staff congress, president's office and board of directors of our schools collectively approve the compensation range of their employees. Our schools determine their respective compensation standards based on employment by function (teachers and administrative personnel) and position. Our schools pay a fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative heads and professors. Our schools participate in social insurance plans (pension, medical, unemployment, work injury and maternity insurance) under the guidance of the relevant national, provincial and municipalities policies, and provide a variety of benefits for their employees.

FINAL DIVIDEND

The Board has resolved not to declare any final dividend for the year ended August 31, 2023 (year ended August 31, 2022: nil).

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on January 26, 2024. Notice convening the forthcoming AGM will be published and dispatched to the Shareholders.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, January 23, 2024 to Friday, January 26, 2024, both days inclusive, during which period no transfer of Shares will be registered. The record date for the entitlement to attend and vote at the AGM is Friday, January 26, 2024. In order to be eligible to attend and vote at the forthcoming AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, January 22, 2024.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the applicable laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this announcement, based on the information publicly available to the Company and to the knowledge of the Directors, the Company continued to meet the prescribed minimum percentage (i.e. at least 25% of the Company's total issued share capital are held by the public at all times as of the date of this announcement) of public float under the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of the code provisions set out in the CG Code. During the Reporting Period and up to the date of this announcement, the Company had complied with all the code provisions set out in the CG Code except for the deviation from the code provision C.2.1 of the CG Code as described below.

Under code provision C.2.1 of part 2 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Zhang Zhifeng is the chairman of the Board and chief executive officer of the Company. The Board considers that Mr. Zhang Zhifeng is the founder of the Group and has extensive experience in the private higher education industry in the PRC and is responsible for the overall strategic planning and business development of the Group, the Board believes that vesting the roles of both chairman of the Board and chief executive officer in Mr. Zhang Zhifeng provides the Group with strong and consistent leadership to improve the Company's efficiency in decision-making and execution, and effectively capture business opportunities. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises highly experienced individuals. There are three independent non-executive Directors in the Board. All of them possess adequate independence and therefore the Board considers the Company has achieved balance and provided sufficient protection of its interests.

The Board believes that good corporate governance is essential in enhancing the confidence of the Shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Shareholders. The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing such practices from time to time to ensure that the Company complies with the statutory and professional standards and is aligned with the latest development.

Model Code for Securities Transactions

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors and the relevant employees of the Group who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities. Having made specific enquiries, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the year ended August 31, 2023. In addition, the Company is not aware of any non-compliance of the Model Code by the relevant employees of the Group during the year ended August 31, 2023.

Audit Committee and Review of Consolidated Financial Information

The Audit Committee consists of three independent non-executive Directors, namely Ms Chiu Lai Kuen Susanna MH JP (Chairperson), Mr. Yang Ying and Mr. Ding Yi. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the annual results of the Group for the year ended August 31, 2023, including the accounting principles and practices adopted by the Group, and has discussed the internal control and financial reporting process with the management of the Group and the external auditor.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR

The figures in respect of this preliminary announcement of the Group's results for the year ended August 31, 2023 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 has been expressed by PricewaterhouseCoopers on this preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cveduholdings.com). The annual report of the Company for the year ended August 31, 2023 will be dispatched to the Shareholders and made available on the same websites in due course.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED AUGUST 31, 2023

(All amounts expressed in RMB unless otherwise stated)

		Year ended August 31,	
	<i>Note</i>	2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	1,083,304	907,762
Cost of sales	6	(458,700)	(425,611)
Gross profit		624,604	482,151
Selling expenses	6	(17,287)	(19,919)

		Year ended August 31,	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
Administrative expenses	6	(148,995)	(115,200)
Other income	4	37,427	35,929
Other gains – net	5	<u>267</u>	<u>1,077</u>
Operating profit		496,016	384,038
Finance income		5,701	6,050
Finance expenses		<u>(103,495)</u>	<u>(111,144)</u>
Finance expenses – net	7	<u>(97,794)</u>	<u>(105,094)</u>
Profit before income tax		398,222	278,944
Income tax expenses	8	<u>(5,175)</u>	<u>(19,160)</u>
Profit for the year		<u>393,047</u>	<u>259,784</u>
Other comprehensive income			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Revaluation gains arising from transfer of property, plant and equipment and corresponding right-of-use assets to investment properties, net of tax		<u>–</u>	<u>534</u>
Other comprehensive income for the year, net of tax		<u>–</u>	<u>534</u>
Total comprehensive income for the year		<u>393,047</u>	<u>260,318</u>
Total comprehensive income attributable to:			
– Owners of the Company		<u>393,047</u>	<u>260,318</u>
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic and diluted	9	<u>0.328</u>	<u>0.216</u>

CONSOLIDATED BALANCE SHEET

AS AT AUGUST 31, 2023

(All amounts expressed in RMB unless otherwise stated)

		As at August 31,	
	Note	2023	2022
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		1,353,545	1,394,089
Property, plant and equipment		4,639,893	4,152,634
Investment properties		183,670	183,570
Intangible assets		13,475	19,416
Deferred income tax assets		140	120
Prepayments		60,012	67,865
		<u>6,250,735</u>	<u>5,817,694</u>
Current assets			
Prepayments		6,598	5,856
Trade and other receivables	11	18,956	28,712
Amounts due from related parties		10,428	10,999
Restricted cash		2,423	1,443
Cash and cash equivalents		985,499	803,845
		<u>1,023,904</u>	<u>850,855</u>
Total assets		<u><u>7,274,639</u></u>	<u><u>6,668,549</u></u>

		As at August 31,	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
EQUITY			
Share capital and share premium		603,188	603,188
Statutory surplus reserves		134,256	128,817
Other reserves		415,605	339,060
Retained earnings		2,213,158	1,825,550
		<hr/>	<hr/>
Total equity		3,366,207	2,896,615
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Borrowings		2,053,735	2,169,701
Lease liabilities		2,942	–
Accruals and other payables	<i>12</i>	46,374	183,496
Amounts due to related parties	<i>12</i>	35,627	–
Deferred income tax liabilities		49,032	47,290
		<hr/>	<hr/>
		2,187,710	2,400,487
		<hr/>	<hr/>
Current liabilities			
Accruals and other payables	<i>12</i>	421,552	314,619
Amounts due to related parties	<i>12</i>	28,082	60,648
Contract liabilities		858,828	689,157
Current income tax liabilities		19,656	20,066
Borrowings		392,043	279,718
Lease liabilities		278	–
Deferred revenue		283	7,239
		<hr/>	<hr/>
		1,720,722	1,371,447
		<hr/>	<hr/>
Total liabilities		3,908,432	3,771,934
		<hr/>	<hr/>
Total equity and liabilities		7,274,639	6,668,549
		<hr/> <hr/>	<hr/> <hr/>

NOTES

1 GENERAL INFORMATION

China Vocational Education Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on May 24, 2016 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, the Cayman Islands. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in providing private tertiary education services, including tuition services and student accommodation services in the People’s Republic of China (the “**PRC**”).

The ultimate holding company of the Company is HL-Diamond Limited (“**HL-Diamond**”). The directors of the Company (“**Directors**”) consider the ultimate controlling party to be Mr. Zhang Zhifeng, who is also an executive director and the chairman of the Board of the Company (the “**Owner**”).

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since November 25, 2019.

The outbreak of the 2019 Novel Coronavirus (the “**COVID-19**”) had brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the industry of education. Since the outbreak of COVID-19, the Group kept continuous attention on the situation of the COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. As at the date that these consolidated financial statements are authorized for issue, COVID-19 does not have any material adverse impact on the financial position and operating result of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) *Going concern assumption*

As at August 31, 2023, the Group’s current liabilities exceeded its current assets by RMB696,818,000. The Group’s total borrowings as at August 31, 2023 amounted to RMB2,445,778,000 which included RMB392,043,000 that was repayable within the coming twelve months (included in current liabilities). The Group also had significant capital commitment in relation to construction of property, plant and equipment out of which RMB72,927,000 was expected to be incurred within the coming twelve months.

In view of such circumstances, the Directors of the Company have given careful consideration of the future liquidity and operating performance of the Group and its available source of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The following plans and measures have been implemented:

- Subsequent to the year end date, to optimise the debt structure and lower the financing cost, the Group obtained two new ten-year bank loan facilities of totalling RMB610,000,000 from a bank. As of the date of the announcement, the Group had drawn down new loan of RMB610,000,000 from the new bank facilities to replace its existing borrowings;
- As at August 31, 2023, the Group has unutilised long-term bank facilities of approximately RMB455,613,000 for its capital expenditure and an unutilised long-term bank facility of RMB30,000,000 for its working capital. The Group maintains regular communication with its banks and the Directors are confident that the Group is able to comply with the bank covenants of its existing bank facilities and such bank facilities will continue to be available to the Group.

The Directors are of the opinion that, taking into account the Group's available internal financial resources, the Group's expected net cash inflows from its operating activities and the availability of the Group's bank facilities, the Group will have sufficient financial resources to fulfil its financial obligations as and when they fall due in the coming twelve months from August 31, 2023. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

(ii) Compliance with HKFRSs and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) and requirements of the Hong Kong Companies Ordinance (“**HKCO**”) Cap. 622.

(iii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis as modified by the revaluation of investment properties which are carried at fair value.

(iv) New and amended standards adopted by the Group

(a) New and amended standards adopted by the Group:

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing September 1, 2022:

Amendment to HKAS 16	Property, Plant and Equipment–Proceeds before Intended Use
Amendments to HKAS 37 Annual Improvements	Onerous Contracts – Cost of Fulfilling a Contract Annual Improvements to HKFRS Standards 2018-2020 (Amendments)
Amendments to HKFRS 3 Accounting Guideline 5 (revised)	Reference to the Conceptual Framework Merger Accounting for Common Control Combinations
HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Group has elected to early adopt HKAS 12 that will be effective for accounting periods beginning on or after January 1, 2023.

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

(b) Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the year ended August 31, 2023 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKFRS 17 and amendments to HKFRS 17	Insurance contracts and the Related Amendments	January 1, 2023
Amendments to HKAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules (amendments)*	January 1, 2023
Amendment to HKAS 1	Classification of Liabilities as Current or Non-current and Non- current Liabilities with Covenants	January 1, 2024
Amendment to HKAS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments)	January 1, 2024

		Effective for accounting periods beginning on or after
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	January 1, 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the Group, these standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

The Group is principally engaged in provision of private tertiary education and ancillary services in the PRC. The Group's chief operating decision-maker ("CODM") has been identified as the executive directors who considers the business from the service perspective.

Information reported to the CODM, for the purpose of resource allocation and assessment of segment performance, is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment. CODM assesses the performance of the reportable segment based on the revenue and gross profit for the year of the Group as presented in the consolidated statements of comprehensive income. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

As at August 31, 2023, approximately 88% of the carrying values of the Group's assets are situated in the PRC mainland. All of the Group's revenue are derived from activities in, and from customers located in the PRC mainland and no geographical segment analysis is prepared.

Revenue during the years ended August 31, 2023 and 2022 are as follows:

	Year ended August 31,	
	2023	2022
	RMB'000	RMB'000
Recognized over time		
– Tuition fees	1,007,883	836,470
– Boarding fees	75,421	71,292
	<u>1,083,304</u>	<u>907,762</u>

Tuition fees and boarding fees are recognized proportionately over each academic year. No customers individually accounted for more than 10% of the Group's revenue during the years ended August 31, 2023 and 2022.

4 OTHER INCOME

	Year ended August 31,	
	2023	2022
	RMB'000	RMB'000
Site use and relevant service income	20,083	8,835
Rental income	10,838	10,642
Service income of school-enterprise cooperation projects	3,566	2,519
Government subsidies	2,107	10,228
Bookselling income	833	3,676
Interest income on other financial assets at amortized cost	–	29
	<u>37,427</u>	<u>35,929</u>

5 OTHER GAINS – NET

	Year ended August 31,	
	2023	2022
	RMB'000	RMB'000
Fair value gains on investment properties	100	200
Net exchange (losses)/gains	(145)	482
Losses on disposals of property, plant and equipment and intangible assets	(426)	(466)
Others	738	861
	<u>267</u>	<u>1,077</u>

6 EXPENSES BY NATURE

	Year ended August 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	254,525	200,063
Depreciation of property, plant and equipment	140,432	115,298
Depreciation of right-of-use assets	38,775	36,486
Joint tuition support fees (<i>Note a</i>)	36,277	61,207
Property management fee	30,423	28,032
School consumables	24,015	13,567
Utilities expenses	18,764	19,647
Office expenses	12,787	9,955
Marketing expenses	11,434	15,021
Travel and entertainment expenses	9,952	8,825
Other taxes	6,578	10,235
Amortization of intangible assets	6,451	6,167
Training expenses	5,903	2,460
Auditors' remuneration		
– Audit services	2,698	2,690
Allowance granted to poverty students	2,626	468
Maintenance fees	2,388	8,034
Consultancy and professional service fees	1,951	2,058
Student activities expenses	1,750	1,156
Insurance expenses	1,043	1,481
Rental expenses	236	7,542
Other expenses	15,974	10,338
	<hr/>	<hr/>
Total cost of sales, selling expenses and administrative expenses	624,982	560,730
	<hr/> <hr/>	<hr/> <hr/>

- (a) Huali College, a group entity entered into an agreement of cooperation with Guangdong University of Technology, the joint sponsor of Huali College, under which the Group will pay joint tuition support fees to Guangdong University of Technology in each academic year based on 17% of the tuition income from students covered by the agreement of Huali College. The Group expects that the agreement will remain enforceable until the completion of the Transitional Cooperation Agreement of Huali College, which has set out certain arrangements in relation to the management of Huali College during the transitional period of the conversion of Huali College from a private independent college into an independently established private general undergraduate college in the PRC (the “**Conversion of Huali College**”).

7 FINANCE EXPENSES – NET

	Year ended August 31,	
	2023	2022
	RMB'000	RMB'000
Finance income:		
– Bank interest income	<u>5,701</u>	<u>6,050</u>
Finance expenses:		
– Interest expenses on bank borrowings	(93,679)	(95,877)
– Interest expenses on other borrowings due to a related party	(9,178)	(18,290)
– Imputed interest expenses on discount of long-term other borrowings and long-term interest payables due to a related party	(9,200)	–
– Imputed interest expenses on discount of long-term payables for property, plant and equipment	(2,960)	(8,454)
– Net exchange losses on bank borrowings	(4,925)	(6,650)
Less: Interest expenses capitalized in property, plant and equipment (<i>Note a</i>)	19,294	22,863
– Imputed interest expenses on discount of compensation payable for the Conversion of Huali College	(2,840)	(4,736)
– Interest expense for lease liabilities	<u>(7)</u>	<u>–</u>
	<u>(103,495)</u>	<u>(111,144)</u>
Net finance expenses	<u>(97,794)</u>	<u>(105,094)</u>

- (a) The capitalization rate used to determine the amount of borrowing costs to be capitalized is the interest rate applicable to the entity's borrowings for construction during the year. The capitalization rates were 4.53% and 4.60% for the years ended August 31, 2023 and 2022 respectively.

8 INCOME TAX EXPENSES

(a) Cayman Islands profits tax

The Company and its direct subsidiary were incorporated in the Cayman Islands as exempted companies with limited liability under the Companies Act (as revised) of the Cayman Islands and accordingly, are exempted from income tax.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax was provided as the Group did not have assessable profits in Hong Kong during the years ended August 31, 2023 and 2022.

(c) PRC corporate income tax (“CIT”)

The corporate income tax rate applicable to the Group’s entities located in the Mainland China (the “**PRC entities**”) is 25% according to the Corporate Income Tax Law of the People’s Republic of China effective on January 1, 2008.

According to the Implementation Rules for the Law for Promoting Private Education (the “**Implementing Rules**”), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Despite the fact that no separate policies, regulations or rules have been introduced by the authorities during the years ended August 31, 2023 and up to date of this announcement, based on the historical tax returns filed to the relevant tax authorities, the colleges within the Group have historically enjoyed preferential tax treatment since their establishment.

Management considered that no CIT would be imposed by the local tax bureau on the income from provision of formal educational services based on the PRC relevant tax regulation. As a result, no income tax expense was recognized for the income from the provision of educational services in respect of the PRC Operating Entities during the period.

Certain wholly-owned subsidiaries of the Group in the PRC enjoy the preferential income tax treatment for Small and Micro Enterprise with the income tax rate of 20% and are eligible to have their tax calculated based on 25% of their taxable income. Guangdong Shengli Technology Company Limited enjoy the preferential income tax rate of 15% based on the relevant tax preferential policy granted to Ruyuan Yao Autonomous County.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated in the periods subsequent to January 1, 2008.

(d) United States of America (“USA”) corporate income tax

No provision for USA corporate income tax was provided as the Group did not have assessable profits in USA during the years ended August 31, 2023 and 2022.

Analysis of the Group's income tax expense is as follows:

	Year ended August 31,	
	2023	2022
	RMB'000	RMB'000
Current tax on profits for the year	3,453	16,000
Deferred income tax	258	236
Deferred withholding tax	1,464	2,924
	<u>5,175</u>	<u>19,160</u>

9 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated on the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended August 31, 2023 and 2022.

	Year ended August 31,	
	2023	2022
Profit attributable to owners of the Company (RMB'000)	393,047	259,784
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,200,000</u>	<u>1,200,000</u>
Basic earnings per share (expressed in RMB)	<u>0.328</u>	<u>0.216</u>

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the years ended August 31, 2023 and 2022.

10 DIVIDENDS

	Year ended August 31,	
	2023	2022
	RMB'000	RMB'000
Final dividend, declared and paid, of nil (2022: RMB0.0409) per ordinary share	<u>-</u>	<u>49,108</u>
Total dividends provided for or paid	<u>-</u>	<u>49,108</u>

During the year ended August 31, 2023, no dividends were paid (2022: dividends were distributed out of the Company's share premium and were paid in cash).

(a) Dividends not recognized at the end of the reporting years

	Year ended August 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final dividend of nil (2022: nil) per ordinary share	<u>—</u>	<u>—</u>

In respect of the year ended August 31, 2023, no dividend is to be proposed at the annual general meeting to be held on January 26, 2024.

11 TRADE AND OTHER RECEIVABLES

	As at August 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
– Tuition fees receivables from students	8,178	12,951
– Boarding fees receivables from students	<u>65</u>	<u>172</u>
	8,243	13,123
Other receivables		
– Utilities receivables from campus logistics service providers	4,828	4,672
– Receivables for rental income	3,227	2,085
– Tuition fees receivables from financial institution	407	3,939
– Staff advances	225	135
– Deposits	16	2,400
– Others	<u>2,010</u>	<u>2,358</u>
	10,713	15,589
	18,956	28,712

As at August 31, 2023 and 2022, the aging analysis of the trade receivables based on the recognition date is as follows:

	As at August 31,	
	2023	2022
	RMB'000	RMB'000
Less than 1 year	6,515	11,645
1 to 2 years	1,689	1,478
2 to 3 years	39	–
	<u>8,243</u>	<u>13,123</u>

As at August 31, 2023 and 2022, trade and other receivables of the Group were denominated in RMB.

As at August 31, 2023 and 2022, the Group's maximum exposure to credit risk was the carrying value of each class of trade and other receivables mentioned above. The Group does not hold any other collateral as security.

Management has closely monitored the credit qualities and the collectability of these receivables and considers that the expected credit risks of them are minimal in view of the history of cooperation with them and forward looking information. The loss allowance provision for these balances was not material and no provision was recorded during the years ended August 31, 2023 and 2022.

As at August 31, 2023 and 2022, the fair values of trade and other receivables approximate their carrying amounts.

12 ACCRUALS AND OTHER PAYABLES AND AMOUNTS DUE TO RELATED PARTIES

	As at August 31,	
	2023	2022
	RMB'000	RMB'000
Payable for construction and purchase of non-current assets	251,746	224,472
Compensation payable for the Conversion of Huali College	52,914	103,404
Government subsidies payable to students	47,336	31,740
Payable for joint tuition support fees (<i>Note (a)</i>)	36,277	61,207
Miscellaneous fee received from students (<i>Note (b)</i>)	20,362	24,623
Payable for property management service	17,227	16,540
Employee benefits payable	16,699	13,067
Interest payable	5,860	7,654
Payable for canteen suppliers	4,729	2,260
Other taxes payable	3,715	2,472
Auditor's remuneration payable	1,709	2,138
Network and telecommunication fee payable	1,513	3,528
Others	<u>7,839</u>	<u>5,010</u>
	467,926	498,115

	As at August 31,	
	2023	2022
	RMB'000	RMB'000
Less: non-current portion		
Payable for construction of non-current assets	(46,374)	(133,005)
Compensation payable for the Conversion of Huali College	<u> –</u>	<u> (50,491)</u>
Current portion	<u>421,552</u>	<u>314,619</u>
Amounts due to related parties		
– Current	28,082	60,648
– Non-Current	<u>35,627</u>	<u> –</u>
	<u>63,709</u>	<u>60,648</u>

- (a) As at August 31, 2023 and 2022, the aging analysis of the payables for joint tuition support fees was within one year.
- (b) The amounts represent the miscellaneous fee received from students which would be paid out by the Group on behalf of students.
- (c) As at August 31, 2023 and 2022, the fair values of current accruals and other payables and current amounts due to related parties approximated their carrying amounts due to their short-term maturities.
- (d) As at August 31, 2023 and 2022, the non-current accruals and other payables and non-current amounts due to related parties were initially recognized at fair value at discount rate available to the Group and subsequently measured at amortized cost using the effective interest rate method.

DEFINITIONS

“academic year”	the academic year for all our school, which generally starts on September 1 of each calendar year and ends on August 31, of the next calendar year
“AGM”	annual general meeting of the Company to be held on January 26, 2024
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Audit Committee”	the audit committee of the Board
“Board”	the board of directors of the Company
“Business Cooperation Agreement”	the Business Cooperation Agreement entered into by and among Huali Shengda, Huali Investment, our PRC Operating Entities and the Registered Shareholder dated March 23, 2017(supplemented on November 27, 2017, August 30, 2018 and December 7, 2021)
“BVI”	the British Virgin Islands
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“China” or “PRC”	the People’s Republic of China and for the purposes of this announcement only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	China Vocational Education Holdings Limited (中國職業教育控股有限公司) (formerly known as Huali University Group Limited (華立大學集團有限公司)), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board (stock code:1756)
“consolidated affiliated entities”	the entities the Company controls through the Structured Contracts as further elaborated in the section headed “Structured Contracts” in the Prospectus, namely Huali Investment, Huali College, Huali Vocational College and Huali Technician College, and each a “consolidated affiliated entity”
“Controlling Shareholder(s)”	has the meaning as defined in the Listing Rules and, unless the context otherwise requires, refers to Mr. Zhang, Trust Co and Huali Education
“Director(s)”	the director(s) of the Company
“Equity Pledge Agreement”	The Equity Pledge Agreement entered into by and among the Registered Shareholder, Huali Shengda and Huali Investment dated August 30, 2018

“Exclusive Call Option Agreement”	the Exclusive Call Option Agreement entered into by and among the Registered Shareholder, Huali Investment, the PRC Operating Entities and Huali Shengda dated March 23, 2017 and August 30, 2018
“Exclusive Technical Service and Management Consultancy Agreement”	the Exclusive Technical Service and Management Consultancy Agreement entered into by and among Huali Shengda, Huali Investment and the PRC Operating Entities dated March 23, 2017(supplemented on August 30, 2018)
“Group”, “We”, “us”, or “our”	the Company, its subsidiaries and its consolidated affiliated entities
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Huali College”	Guangzhou Huali College (廣州華立學院) (formerly known as Huali College Guangdong University of Technology (廣東工業大學華立學院)), a private independent college established under the laws of the PRC on January 1, 2006, was converted into an independently established private general undergraduate college with the official approval by MOE in May 2021, and a consolidated affiliated entity of the Company
“Huali Education”	Huali Education Holdings Limited, a limited liability company incorporated in BVI and wholly owned by Trust Co
“Huali (HK) Education”	Huali (HK) Education Investment Limited (香港華立教育投資有限公司), a limited liability company incorporated in Hong Kong on May 18, 2016 and an indirect wholly owned subsidiary of the Company
“Huali Investment”	Guangzhou Huali Investment Company Limited (廣州華立投資有限公司), being the School Sponsor of each of the PRC Operating Entities, a company established in the PRC with limited liability on June 15, 1999 and a consolidated entity of the Company
“Huali Shengda”	Guangdong Huali Shengda Business Service Limited (廣東華立盛大商務服務有限公司) (formerly known as Xizang Huali Shengda Information Technology Limited (西藏華立盛大信息科技有限公司), an enterprise established under the laws of PRC on January 18, 2017, which is a wholly owned subsidiary of Huali Shengrong

“Huali Shengrong”	Guangzhou Huali Shengrong Education Technology Company Limited (廣州華立盛榮教育科技有限公司), a wholly foreign- owned enterprise with limited liability established under the laws of the PRC on December 27, 2016, which is wholly owned by Huali (HK) Education
“Huali Technician College”	Guangdong Province Huali Technician College (廣東省華立技師學院), a private tertiary vocational school established under the laws of the PRC on August 20, 2003, of which the School Sponsor’s interest is wholly owned by Huali Investment, and a consolidated affiliated entity of the Company
“Huali Vocational College”	Guangzhou Huali Science and Technology Vocational College (廣州華立科技職業學院), a formal higher education institution established under the laws of the PRC on July 19, 2005, of which the school sponsor’s interest is wholly owned by Huali Investment, and a consolidated affiliated entity of the Company
“Implementation Rules”	the Regulations of the Implementation Rules for the Law for Promoting Private Education of the PRC 《中華人民共和國民辦教育促進法實施條例》 issued by the State Council on April 7, 2021, and effective from September 1, 2021
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“MOE”	the Ministry of Education of the PRC (中華人民共和國教育部)
“Mr. Zhang”	Mr. Zhang Zhifeng, chairman of the Board, executive Director and one of our controlling shareholders
“Mu”	the Chinese land area unit, whereby a mu equals to approximately 666.67 square meters
“Nomination Committee”	the nomination committee of the Board

“PRC Operating Entities”	the Company’s consolidated affiliated entities, namely, Huali College, Huali Vocational College and Huali Technician College
“Prospectus”	the prospectus of the Company dated November 14, 2019
“Registered Shareholder(s)”	Huali Investment is owned as to 99.999% by Mr. Zhang and as to 0.001% by Mr. Zhang Zhifan
“Registered Shareholder’s Right Entrustment Agreement and Registered Shareholder’s Power of Attorney”	the Registered Shareholder’s Right Entrustment Agreement and Registered Shareholder’s Power of Attorney entered into by and among Huali Investment, the Registered Shareholder and Huali Shengda in favor of Huali Shengda dated September 19, 2017(supplemented on August 30, 2018 and December 7, 2021)
“Reporting Period”	the year ended August 31, 2023
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“School Directors”	the directors nominated by Huali Investment to each of our PRC Operating Entities
“School Directors’ Power of Attorney”	the School Directors’ Power of Attorney executed by each of the School Directors in favor of Huali Shengda dated March 23, 2017 (supplemented on August 30, 2018, September 28, 2018, April 23, 2019, July 22, 2019, October 10, 2019 and January 17, 2020)
“School Sponsor(s)”	the individual(s) or entity(ies) that funds or holds interests in an educational institution
“School Sponsor’s and Directors’ Rights Entrustment Agreement”	the School Sponsor’s and Directors’ Rights Entrustment Agreement entered into by and among Huali Investment, the School Directors and Huali Shengda dated March 23, 2017 (supplemented on August 30, 2018, September 28, 2018, April 23, 2019, July 22, 2019, October 10, 2019 and July 20, 2020)
“School Sponsor’s Power of Attorney”	the School Sponsor’s Power of Attorney executed by Huali Investment in favor of Huali Shengda dated March 23, 2017
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	ordinary shares in the Company of par value US\$0.0001 each
“South China”	Guangdong Province, Guangxi Province and Hainan Province of the PRC

“Spouse Undertaking”	the Spouse Undertaking executed by the spouse of the Registered Shareholder dated March 23, 2017 (supplemented on August 30, 2018 and December 7, 2021)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the School Sponsor’s and Directors’ Rights Entrustment Agreement, the School Sponsor’s Power of Attorney, the School Directors’ Power of Attorney, the Spouse Undertaking, the Registered Shareholder’s Right Entrustment Agreement and the Registered Shareholder’s Power of Attorney
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Trust Co”	Huali-Diamond Limited, a holding vehicle incorporated in BVI indirectly controlled by UBS Trustees (B.V.I.) Limited, the trustee of HL-Diamond Trust, to hold the entire issued share capital of Huali Education
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

The English names of the PRC entities (including schools), PRC laws or regulations, and the PRC government authorities referred to in this announcement are merely translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

By order of the Board
China Vocational Education Holdings Limited
Zhang Zhifeng
Chairman

Hong Kong, November 27, 2023

As at the date of this announcement, the executive Directors are Mr. Zhang Zhifeng, Mr. Ye Yaming, Mr. Zhang Yude and Mr. Zou Kang; and the independent non-executive Directors are Ms Chiu Lai Kuen Susanna MH JP, Mr. Yang Ying and Mr. Ding Yi.