

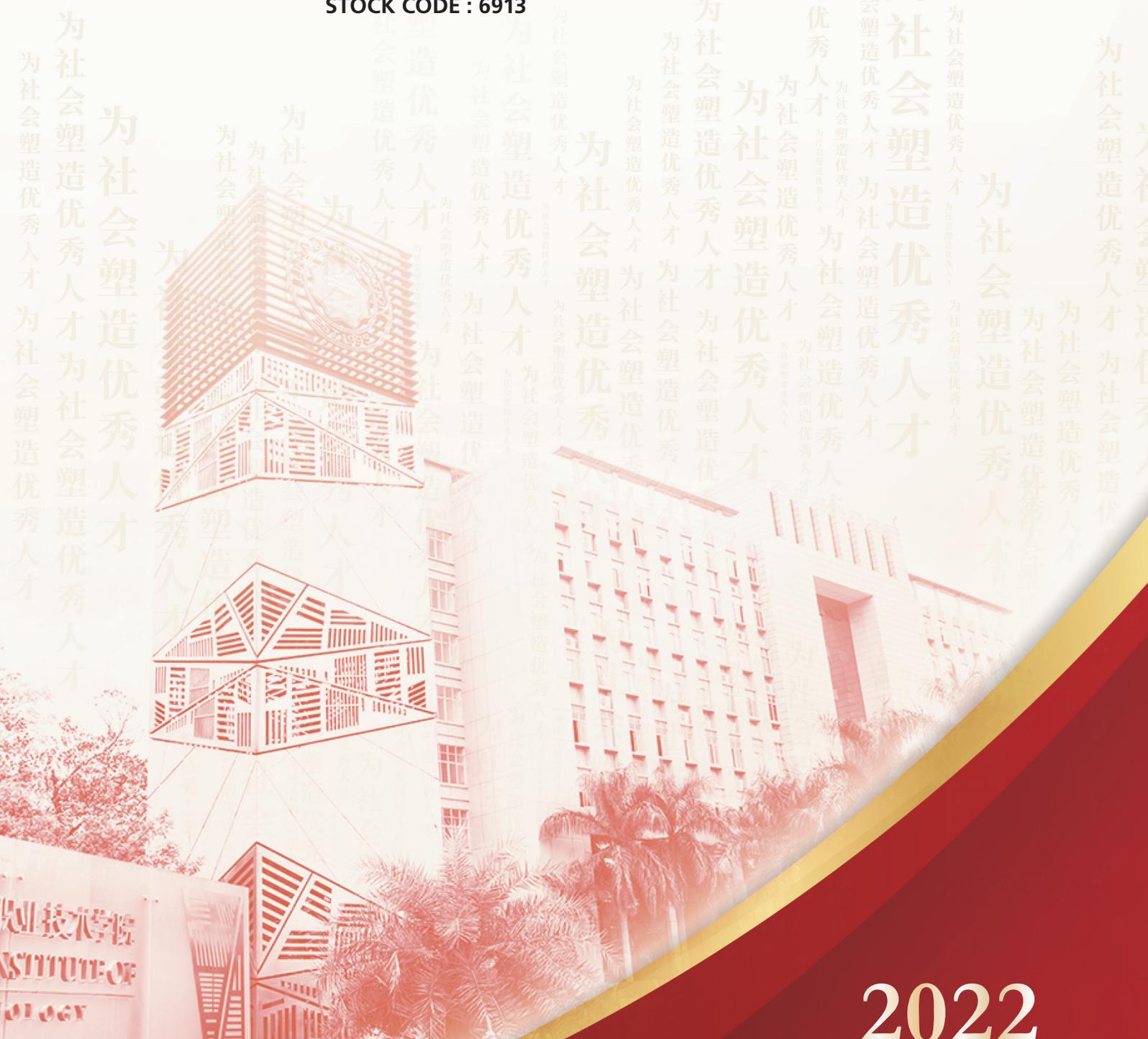


中國華南職業教育集團有限公司

SOUTH CHINA VOCATIONAL
EDUCATION GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 6913



为社会塑造优秀人才

2022

INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. He Huishan (*Chairman*)
Ms. He Huifen (*Chief Executive Officer*)
Ms. He Huifang
Mr. Lao Hansheng

Independent Non-executive Directors

Mr. Luo Pan
Mr. Yeh Zhe-Wei
Mr. Ma Shuchao

COMPANY SECRETARY

Mr. Wang Tao (resigned on 30 June 2022)
Ms. Lau Jeanie (resigned on 30 June 2022)
Ms. Ho Yin Kwan (appointed on 30 June 2022)

AUTHORISED REPRESENTATIVES

Mr. He Huishan (appointed on 30 June 2022)
Mr. Lao Hansheng
Mr. Wang Tao (resigned on 30 June 2022)

AUDIT COMMITTEE

Mr. Luo Pan (*Chairman*)
Mr. Yeh Zhe-Wei
Mr. Ma Shuchao

REMUNERATION COMMITTEE

Mr. Yeh Zhe-Wei (*Chairman*)
Mr. Luo Pan
Mr. Lao Hansheng

NOMINATION COMMITTEE

Mr. He Huishan (*Chairman*)
Mr. Luo Pan
Mr. Yeh Zhe-Wei

LEGAL ADVISORS AS TO HONG KONG LAW

Morgan, Lewis & Bockius
Suites 1902-09
19th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

COMPLIANCE ADVISOR

Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Hong Kong

CORPORATE HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 492 Da Guan Zhong Road
Tianhe District
Guangzhou
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
17/F
Far East Finance Centre
16 Harcourt Road
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

STOCK CODE

06913

COMPANY WEBSITE

www.scvedugroup.com

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2022 (the “Reporting Period”), South China Vocational Education Group Company Limited (the “Company”) together with its subsidiaries (collectively referred to as 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 30 June 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 engineering technology, e-commerce, computer network technology, cloud computing technology and application, health management and pharmaceutical production technology, 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 that provides vocational education and training in various industries for students. As at 30 June 2022, Lingnan Modern Technician College had 7 departments and offered over 27 majors, including but not limited to, mechatronics, Artificial intelligence, drones, vehicle inspection and maintenance, fire engineering, traditional Chinese medicine, rehabilitation, nursing, big data applications, advertising design, computer network application, computer program design, digital media application and cross-border e-commerce, 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 25,797 for the 2021/2022 school year. As at 30 June 2022, the average tuition fee of Lingnan Institute of Technology and Lingnan Modern Technician College amounted to RMB16,429 and RMB10,838, respectively, and the average boarding fee of these two schools amounted to RMB1,641 and RMB1,586, respectively.

OUTLOOK

Favorable Policy Environment for Vocational Education

At a national conference on vocational education held in April 2021, important instructions were delivered by Xi Jinping, general secretary of the Communist Party of China (CPC) Central Committee, Chinese President and chairman of the Central Military Commission, on the development of vocational education that vocational education has a promising future and great potential as China journeys toward socialist modernisation. It was emphasised that more efforts will be made to optimise the positioning of vocational education, to promote integration between industry and education and cooperation between schools and enterprises, to reform training and schooling modes as well as management and support mechanisms, to promote bachelor-level vocational education and bring about a number of quality vocational education institutions and programs, to promote the integration of vocational education and regular education, to improve the adaptability of vocational education and speed up the development of the modern vocational education system so as to cultivate more high-quality technical professionals.

In May 2021, the State Council promulgated the “Regulations for the Implementation of the Private Education Promotion Law of the People’s Republic of China”, pursuant to which, various policies have been introduced to encourage the development vocational education, such as “public schools implementing vocational education can attract the capital, technology, management and other elements of enterprises to establish or participate in the establishment of for-profit private schools that implement vocational education” and “enterprises are encouraged to establish or participate in the establishment of private schools that implement vocational education in various forms, such as sole proprietorship, joint venture and cooperation”.

In June 2021, the Vocational Education Law of the People’s Republic of China (Revised Draft) (the “Revised Draft”) was submitted to the 29th meeting of the Standing Committee of the 13th National People’s Congress for consideration and public opinions were solicited thereon. The Revised Draft provides that vocational education and regular education are of the same importance. Besides, the country encourages the government and social organisations to participate in vocational education and the establishment of vocational education systems, and also gives support to the eligible enterprises or social organisations implementing vocational education according to regulations.

MANAGEMENT DISCUSSION AND ANALYSIS

In October 2021, the General Office of the Central Committee of CPC and the General Office of the State Council issued the Opinions (the “Opinions”) on Promoting the High-Quality Development of Modern Vocational Education 《關於推動現代職業教育高質量發展的意見》. The Opinions has 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 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 work 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” and “big support” (“小切口” “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, 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” was voted and passed by the 34th meeting of the Standing Committee of the 13th National People’s Congress, which was the first revision in nearly 26 years. This revision clarifies that “vocational education is a type of education that are 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) for the positions publicly recruited by public institutions with vocational skill level requirements, the academic requirements can be appropriately reduced; 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.

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-Macao Greater Bay Area to Provide High-Caliber Talents for the Greater Bay Area Continuously

The Guangdong-Hong Kong-Macao 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 11.0% nominal GDP in 2021. 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 four 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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).

FINANCIAL REVIEW

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group's revenue consists of tuition fees, boarding fees and other education service fees.

The Group's revenue decreased by approximately 7.5% from approximately RMB286.0 million for the six months ended 30 June 2021 to approximately RMB264.5 million for the six months ended 30 June 2022. The decrease was primarily due to a decrease in tuition fees and boarding fees as a result of the decrease in total full-time student enrollment of Lingnan Institute of Technology.

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) amortisation of other intangible assets; (v) cost of cooperative education; (vi) utilities; (vii) teaching expenditures; and (viii) office expenses.

The Group's cost of sales decreased by approximately 2.0% from approximately RMB144.6 million for the six months ended 30 June 2021 to approximately RMB141.7 million for the six months ended 30 June 2022. The decrease was primarily due to a decrease in staff costs as a result of a decrease of the bonuses.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 13.1% from approximately RMB141.4 million for the six months ended 30 June 2021 to approximately RMB122.9 million for the Reporting Period, and the Group's gross profit margin decreased from approximately 49.4% to approximately 46.4%. The decrease of gross profit margin was mainly due to a decrease in tuition fees and boarding fees as a result of the decrease in total full-time student enrollment of Lingnan Institute of Technology.

Other income and gains

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

The Group's other income and gains decreased by approximately 45.4% from approximately RMB54.4 million for the six months ended 30 June 2021 to approximately RMB29.7 million for the six months ended 30 June 2022. The decrease was primarily due to (i) a decrease of RMB15.9 million in rental income resulting from termination of leases; and (ii) a decrease of RMB8.9 million in gains from disposal items of property, plant and equipment as the Group disposed certain properties during the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2.4% from approximately RMB8.4 million for the six months ended 30 June 2021 to approximately RMB8.6 million for the six months ended 30 June 2022. The increase was primarily due to an increase in admission fee for student recruitment of Lingnan Modern Technician College.

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 11.3% from approximately RMB38.9 million for the six months ended 30 June 2021 to approximately RMB34.5 million for the six months ended 30 June 2022. The decrease was primarily due to (i) a decrease of RMB7.8 million in listing expenses; (ii) an increase of RMB2.6 million in staff costs and welfare for administrative staff as a result of an increase in number of staff during the Reporting Period; and (iii) an increase of RMB0.5 million in consulting expenses related to the increase of consulting services.

Other expenses

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

The Group's other expenses decreased by approximately 21.2% from approximately RMB10.4 million for the six months ended 30 June 2021 to approximately RMB8.2 million for the six months ended 30 June 2022. The decrease was primarily due to a decrease of cost of rental income resulting from termination of leases.

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 20.2% from approximately RMB9.4 million for the six months ended 30 June 2021 to approximately RMB7.5 million for the six months ended 30 June 2022. The decrease was primarily due to a decrease of interest expenses with the repayment of certain other borrowings during the Reporting Period.

Profit for the period

As a result of the above factors, profit for the period of the Group decreased by approximately 26.8% from approximately RMB126.5 million for the six months ended 30 June 2021 to approximately RMB92.7 million for the six months ended 30 June 2022.

Adjusted Net Profit

The Group defines its adjusted net profit as its profit for the period after adjusting for those items which are not indicative of the Group's operating performances (as presented in the table below). This is not a HKFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table shows profit and adjusted net profit of the Group for the periods presented below:

| | Six months ended 30 June | |
|-----------------------|--------------------------|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Profit for the period | 92,663 | 126,530 |
| Add: | | |
| Listing expenses | — | 7,774 |
| Adjusted net profit | <u>92,663</u> | <u>134,304</u> |

As a result of the above factors, adjusted net profit for the Reporting Period decreased by approximately RMB41.6 million or approximately 31.0% as compared with the corresponding period in 2021. Adjusted net profit margin decreased from approximately 47.0% for the six months ended 30 June 2021 to approximately 35.0% for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL AND LIQUIDITY POSITION

Current assets and current liabilities

As at 30 June 2022, the Group had net current assets of approximately RMB174.0 million, decreased by approximately 16.1% from RMB207.5 million as at 31 December 2021. The Group had net current assets as at such date primarily because (i) the increase of cash payment in constructing teaching and administrative facilities and purchasing teaching equipment; and (ii) the decrease of contract liabilities as a result of recognition of tuition fees and boarding fees.

The Group's current assets as at 30 June 2022 decreased by RMB163.8 million to approximately RMB467.5 million from approximately RMB631.3 million as at 31 December 2021. The decrease in current assets was primarily attributable to the decrease of cash and cash equivalents.

The Group's current liabilities decreased by RMB130.4 million from approximately RMB423.8 million as at 31 December 2021 to approximately RMB293.4 million as at 30 June 2022, mainly reflecting: (i) a decrease of approximately RMB110.0 million as a result of the recognition of tuition and boarding fees in 2021/2022 school year; and (ii) a decrease of approximately RMB14.4 million in other payables and accruals as at 30 June 2022 due to certain payment settlement.

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 RMB243.5 million as at 30 June 2022, denominated in RMB. As at 30 June 2022, the Group's interest-bearing bank and other borrowings bore effective interest rates ranging from approximately 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 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 financial products issued by a fund company and structured deposits offered by banks in China. These financial 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 financial products as part of its cash management strategy in order to obtain higher yields than it would typically receive from regular bank deposits. These financial products the Group invested in during the Reporting Period were denominated in RMB and can be redeemed by the Group on any business day upon maturity. The expected yield rate of these financial products ranged from approximately 1.3% to 3.2% per annum.

The Group's financial products increased by approximately 63.6% from approximately RMB70.0 million as at 31 December 2021 to approximately RMB114.5 million as at 30 June 2022. All applicable percentage ratios of each of these investments under Chapter 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were below 5%. The increase was primarily due to the Group invested in more financial products issued by banks in China.

Contingent liabilities, guarantees and litigation

As at 30 June 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 30 June 2022, no assets of the Group were pledged to secure bank loans and other borrowings (31 December 2021: nil).

Foreign exchange exposure

The functional currency of the Company is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As at 30 June 2022, certain bank balances were denominated in HK\$ and US\$. During the six months ended 30 June 2022, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The directors (the "Directors") believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical and effective measures to prevent exposure to exchange rate risk. As a result, the Group did not enter into any financial instrument for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

The gearing ratio, which is calculated by using total interest-bearing bank and other borrowings divided by total equity, decreased to approximately 16.4% as at 30 June 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 30 June 2022, the Group had a total of 1,418 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.

SIGNIFICANT INVESTMENTS HELD

Save as disclosed in this report, the Group did not hold any significant investments in equity interest in any company during the Reporting Period.

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at the date of this report, save as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 30 June 2021 (the "Prospectus"), the Group did not have any existing plan to acquire other material investments or capital assets.

CORPORATE GOVERNANCE/OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARE, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), Chapter 571 of the Laws of Hong Kong), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), were as follows:

Long Position in the Shares of the Company

| Name of Director | Nature of interest | Number of shares held | Position | Approximate percentage of shareholding in the Company ⁽¹⁾ |
|------------------|--|-----------------------|----------|--|
| Mr. He Huishan | Interest in a controlled corporation ⁽²⁾⁽³⁾ | 620,000,000 | Long | 46.48% |
| Ms. He Huifen | Interest in a controlled corporation ⁽⁴⁾ | 190,000,000 | Long | 14.24% |
| Ms. He Huifang | Interest in a controlled corporation ⁽⁵⁾ | 190,000,000 | Long | 14.24% |

Notes:

- (1) Based on the number of issued Shares as at 30 June 2022, being, 1,334,000,000 Shares.
- (2) Zhihui Guang Limited (“Zhihui Guang”) is owned as to 51% by Mr. He Huishan and 49% by Ms. Zhou Lanqing, respectively. Ms. Zhou Lanqing is the spouse of Mr. He Huishan. Mr. He Huishan is therefore deemed to be interested in the Shares held by Zhihui Guang by virtue of the SFO, being 570,000,000 Shares.
- (3) Mr. He Huishan is the sole shareholder of Good Booming Limited (“Good Booming”). Mr. He Huishan is therefore deemed to be interested in the Shares held by Good Booming by virtue of the SFO, being 50,000,000 Shares.
- (4) Ms. He Huifen is the sole shareholder of China Foreign Education Limited (“China Foreign Education”). Ms. He Huifen is therefore deemed to be interested in the Shares held by China Foreign Education by virtue of the SFO, being 190,000,000 Shares.
- (5) Ms. He Huifang is the sole shareholder of Fangyuan International Education Investment Limited (“Fangyuan Education”). Ms. He Huifang is therefore deemed to be interested in the Shares held by Fangyuan Education by virtue of the SFO, being 190,000,000 Shares.

CORPORATE GOVERNANCE/OTHER INFORMATION

Long Position in the Shares of the Associated Companies

Long Position in the Shares of Guangzhou Lingnan Education Group Co., Ltd. (廣州嶺南教育集團有限公司)

| Name of Director | Nature of interest | Number of shares held | Position | Percentage of shareholding in the associated company ⁽¹⁾ |
|------------------|--------------------|-----------------------|----------|---|
| Mr. He Huishan | Beneficial owner | 18,000,000 | Long | 60.00% |
| Ms. He Huifen | Beneficial owner | 6,000,000 | Long | 20.00% |
| Ms. He Huifang | Beneficial owner | 6,000,000 | Long | 20.00% |

Note:

(1) Based on the number of issued shares of Guangzhou Lingnan Education Group Co., Ltd. as at 30 June 2022, being, 30,000,000 shares.

Save as disclosed above, as at 30 June 2022, neither the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE/OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2022, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors or chief executive of the Company) or corporations who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name of substantial shareholder | Nature of interest | Number of shares held | Position | Approximate percentage of shareholding in the Company ⁽¹⁾ |
|---------------------------------|---|-----------------------|----------|--|
| Zihui Guang | Beneficial owner ⁽²⁾ | 570,000,000 | Long | 42.73% |
| Ms. Zhou Lanqing | Interest in a controlled corporation ⁽²⁾ | 570,000,000 | Long | 42.73% |
| | Spouse interest ⁽²⁾⁽³⁾ | 50,000,000 | Long | 3.75% |
| China Foreign Education | Beneficial owner ⁽⁴⁾ | 190,000,000 | Long | 14.24% |
| Mr. Han Liqing | Spouse interest ⁽⁴⁾ | 190,000,000 | Long | 14.24% |
| Fangyuan Education | Beneficial owner ⁽⁵⁾ | 190,000,000 | Long | 14.24% |
| Mr. Du Wenyu | Spouse interest ⁽⁵⁾ | 190,000,000 | Long | 14.24% |

Notes:

(1) Based on the number of issued Shares as at 30 June 2022, being, 1,334,000,000 Shares.

(2) Zihui Guang is owned as to 51% by Mr. He Huishan and 49% by Ms. Zhou Lanqing, respectively. Ms. Zhou Lanqing is the spouse of Mr. He Huishan. Ms. Zhou Lanqing is therefore deemed to be interested in the Shares held by Zihui Guang by virtue of the SFO, being 570,000,000 Shares.

(3) Mr. He Huishan is the sole shareholder of Good Booming. Ms. Zhou Lanqing is the spouse of Mr. He Huishan. Ms. Zhou Lanqing is therefore deemed to be interested in the Shares held by Good Booming by virtue of the SFO, being 50,000,000 Shares.

(4) Ms. He Huifen is the sole shareholder of China Foreign Education. Mr. Han Liqing is the spouse of Ms. He Huifen. Mr. Han Liqing is therefore deemed to be interested in the Shares held by China Foreign Education by virtue of the SFO, being 190,000,000 Shares.

(5) Ms. He Huifang is the sole shareholder of Fangyuan Education. Mr. Du Wenyu is the spouse of Ms. He Huifang. Mr. Du Wenyu is therefore deemed to be interested in the Shares held by Fangyuan Education by virtue of the SFO, being 190,000,000 Shares.

CORPORATE GOVERNANCE/OTHER INFORMATION

Save as disclosed above, as at 30 June 2022, the Directors and the chief executive of the Company are not aware of any other person (other than Directors or chief executive of the Company) or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme (the “Scheme”) was conditionally approved by a written resolution of the Shareholder on 23 June 2021 and adopted by a resolution of the board of directors on the same day. The terms of the Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules. Details of the share option scheme are set out in “Appendix IV — Statutory and General Information” of the Prospectus.

The purpose of the Scheme is to give the Eligible Persons (as defined below) an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“Executive”), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“Employee”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;

CORPORATE GOVERNANCE/OTHER INFORMATION

- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group;
- (g) an associate of any of the persons referred to in paragraphs (a) to (f) above; and
- (h) any person involved in the business affairs of our Company whom our Board determined to participate in the Share Option Scheme (the person referred above are the “Eligible Persons”).

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the date of Company’s listing on 13 July 2021 (the “Listing Date”), representing 133,400,000 Shares. The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes of our Group shall not exceed 30% of the Company’s issued share capital from time to time. No Options may be granted under the Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

No Option may be granted to any participant of the Scheme such that the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted to that person in any 12-month period exceeds 1% of the Company’s issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting.

CORPORATE GOVERNANCE/OTHER INFORMATION

An Option may be exercised in accordance with the terms of the Scheme at any time during a period as determined by the Board. Subject to the terms of the Scheme, the Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further Options will be granted or offered but the provisions of the Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Scheme. Subject to the terms and conditions as the Board may determine (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an Option must be held before it can be exercised. Participants of the Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the Options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Scheme has a remaining life of approximately eight years as at the date of this report.

For the period from the date of the adoption of the Scheme to the date of this report, no Options were granted, outstanding, exercised, cancelled or lapsed under the Scheme. Thus, as at the date of this report, the number of Shares issuable under the Scheme was 133,400,000, which represented 10% of the Shares in issue as at the same date.

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 report.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

On 13 July 2021, pursuant to a written resolution of the shareholders of the Company (the "Shareholders"), the Directors were authorised to capitalise the amount of HK\$9,990,000 to pay up in full at par 999,000,000 Shares for allotment and issue to the Shareholders whose names appear on the register of members of the Company prior to the Global Offering (as defined below) on a pro rata basis (the "Capitalisation Issue").

CORPORATE GOVERNANCE/OTHER INFORMATION

The shares of the Company were listed on the Stock Exchange on 13 July 2021 by way of a global offering of its ordinary shares (the “Global Offering”). Pursuant to the Global Offering, 334,000,000 Shares (25% of the then total number of Shares of the Company of 1,334,000,000) were issued to the public at a price of HK\$1.59 per Share. Immediately following the completion of the Capitalisation Issue and the Global Offering, the authorised share capital of the Company was HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each.

Please refer to the Prospectus and the announcements of the Company dated 12 July 2021 for further details.

The net proceeds from the Global Offering, after deducting underwriting commission and other expenses, were approximately HK\$446.0 million.

The following table sets forth a summary of the utilisation of the net proceeds from the Global Offering:

| Purpose | Proportion | Net proceeds HK\$' Million | Utilised | Utilised | Unutilised | Expected timeline |
|--|-------------|-------------------------------|---|---|---|----------------------|
| | | | amount during the Reporting Period HK\$' Million | amount as at the date of this report HK\$' Million | amount as at the date of this report HK\$' Million | |
| 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 | 2022-2023 |
| – Constructing additional teaching and administrative facilities and purchasing teaching equipment | 12.0% | 53.5 | – | 53.5 | – | N/A |
| – Constructing an industry and education integrated industrial park | 3.0% | 13.4 | – | 1.7 | 11.7 | 2022 |
| Acquire other schools and educational service providers to expand the school network | 20.0% | 89.2 | 3.6 | 3.6 | 85.6 | 2022-2023 |
| Working capital | 10.0% | 44.6 | 16.6 | 44.6 | – | N/A |
| Total | 100% | 446.0 | 20.2 | 103.4 | 342.6 | |

CORPORATE GOVERNANCE/OTHER INFORMATION

As at the date of this report, there was no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus except that (1) the timeline for acquisition of other schools and educational service providers to expand the school network was extended from 2022 to 2023 as the Group needs more time to secure suitable acquisition targets considering the downward market trend in 2022; and (2) for each intended use of net proceeds, the proportion of the net proceeds allocated to each year during their respective expected timeline was adjusted according the practical situation of execution.

INTERIM DIVIDEND

The Board does not declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

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 during the six months ended 30 June 2022.

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. Please refer to the note 12 to unaudited interim condensed consolidated financial statements for details.

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 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.

CORPORATE GOVERNANCE/OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as 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 for the six months ended 30 June 2022.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL INFORMATION

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and the unaudited condensed consolidated financial statements and the interim report of the Group for the six months ended 30 June 2022.

UPDATES ON INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of information of Directors since the publication of the 2021 annual report of the Company and up to the date of this report are set out as follows:

Due to Mr. Wang Tao's resignation, among other things, as the Company's authorised representative for the purpose of Rule 3.05 of the Listing Rules (the "Authorised Representative") with effect from 30 June 2022, Mr. He Huishan, an executive director of the Company, has been appointed as the Authorised Representative with effect from the same date.

Save as disclosed above, since the publication of the 2021 annual report of the Company and up to the date of this report, there was no change in the information which was required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Please refer to the section headed "Contractual Arrangements" of the Prospectus for details. The Board has reviewed the overall performance of the Contractual Arrangements and believe that the Group complied with the Contractual Arrangements in all material respects during the Reporting Period and up to the date of this report.

QUALIFICATION REQUIREMENTS

Please refer to the section headed "Contractual Arrangements – PRC Laws and Regulations relating to Foreign Ownership in the Education Industry – Higher Education and Secondary Vocational Education" of the Prospectus in relation to the Sino-foreign cooperation requirement under the Negative List for the provision of higher education in the PRC where the foreign investor shall operate higher education in the PRC through cooperation with a PRC educational institution in compliance with the Sino-Foreign Regulation.

CORPORATE GOVERNANCE/OTHER INFORMATION

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if the Group were to apply for Lingnan Institute of Technology to be reorganized as a Sino-foreign joint venture private school for PRC students at a higher education institution (a “Sino-Foreign Joint Venture Private School”), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and that provides high quality education (the “Qualification Requirement I”). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the “Foreign Ownership Restriction”). In addition, pursuant to the Sino-Foreign Regulation, the establishment of Sino-Foreign Joint Venture Private School is subject to approval of education authorities at the provincial or national level. Pursuant to the Sino-foreign Vocational Skills Training Measures (《中外合作職業技能培訓辦學管理辦法》), the foreign investor in a Sino foreign technical school (a “Sino-Foreign Joint Venture Private Technical School”) must be a foreign education institution or a foreign vocational skills training institution with relevant qualification and high quality (the “Qualification Requirement II”). If the Group were to apply for Lingnan Modern Technician College to be reorganized as a Sino-Foreign Joint Venture Private Technical School for PRC students at a technical school, it shall abide by the Qualification Requirement II.

As advised by the Company’s PRC legal advisors, there was no update on any implementing measures or specific guidance being promulgated pursuant to the Sino-Foreign Regulation to provide quantitative or specific standards on the Qualification Requirement I and/or Qualification Requirement II in Guangdong Province during the Reporting Period and up to the date of this report.

Please also refer to the section headed “Contractual Arrangements – PRC Laws and Regulation relating to Foreign Ownership in the Education Industry – Plan to Comply with the Qualification Requirement” in the Prospectus for further details on the Group’s efforts and actions undertaken to comply with the Qualification Requirement I and/or Qualification Requirement II. As of the date of this report, the Group is still waiting for approval from the California Bureau for Private Postsecondary Education to establish the new school in the State of California, the United States.

FOREIGN INVESTMENT LAW

Please refer to the section headed “Contractual Arrangements – Development In The PRC Legislation On Foreign Investment” of the Prospectus for the background of the Foreign Investment Law (外商投資法實施條例) and the impact and potential consequences of the Foreign Investment Law and its implementation regulations on the Group’s contractual arrangements. As advised by the Company’s PRC legal advisors, neither was there any change on the compliance status of the Group’s contractual arrangements with the Foreign Investment Law as described in the Prospectus, nor was there any update on regulatory development in relation to the Foreign Investment Law during the Reporting Period and up to the date of this report.

CORPORATE GOVERNANCE/OTHER INFORMATION

COMPETING BUSINESS

The Board confirmed that neither the Directors nor any of their associates had any business or interest that competes or may compete with the business of the Group and there was no other conflicts of interest which any such person had or may have with the Group during the Reporting Period and up to the date of this report.

THE 2016 DECISION AND THE 2021 IMPLEMENTATION RULES

Please refer to the section headed “Business – Potential Implications of the 2016 Decision and Related Implementation Rules” and “Business – The 2021 Implementation Rules” of the Prospectus for details of the 2016 Decision and the 2021 Implementation Rules.

As part of the Group’s measures to mitigate its compliance risks in relation to the 2016 Decision, the 2021 Implementation Rules and other relevant legal and regulatory developments, including its decision to register its schools as for-profit private schools or non-profit private schools in the future, the Group has assigned the responsibility to its finance and legal departments to pay close attention to the developments of these policies and regulations and the operations of its schools. They will report to the Group’s Board on a regular basis and the Group will promptly consult with its PRC legal advisors as and when required. The Group will also ensure that its acquisition in the future will fully comply with the relevant rules and regulations in effect from time to time. The Group will ensure that any decision will be made on a fully-informed basis by its Board, taking into account the findings of its finance and legal departments and will update its shareholders and investors as and when appropriate.

The Board confirmed that no relevant update was required to be provided to its shareholders and investors in this regard during the Reporting Period and up to the date of this report.

By order of the Board
He Huishan
Chairman

Hong Kong, 30 August 2022

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| REVENUE | 4 | 264,548 | 286,045 |
| Cost of sales | | (141,691) | (144,624) |
| Gross profit | | 122,857 | 141,421 |
| Other income and gains | 4 | 29,665 | 54,404 |
| Selling and distribution expenses | | (8,562) | (8,447) |
| Administrative expenses | | (34,451) | (38,898) |
| Other expenses | | (8,164) | (10,444) |
| Finance costs | | (7,453) | (9,437) |
| PROFIT BEFORE TAX | 5 | 93,892 | 128,599 |
| Income tax expense | 6 | (1,229) | (2,069) |
| PROFIT FOR THE PERIOD | | 92,663 | 126,530 |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of financial statements | | 233 | – |
| Net other comprehensive income that may be reclassified to profit or loss in subsequent periods | | 233 | – |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD | | 233 | – |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 92,896 | 126,530 |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Note | Six months ended 30 June | |
|---|------|--------------------------------|--------------------------------|
| | | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Profit attributable to: | | | |
| Owners of the parent | | 92,682 | 126,530 |
| Non-controlling interests | | (19) | – |
| | | <u>92,663</u> | <u>126,530</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 92,915 | 126,530 |
| Non-controlling interests | | (19) | – |
| | | <u>92,896</u> | <u>126,530</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 8 | | |
| Basic and diluted | | | |
| – For profit for the period | | <u>RMB0.07</u> | <u>RMB0.13</u> |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2022

| | Notes | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|---|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 1,185,269 | 1,138,478 |
| Investment properties | | 52,735 | 53,700 |
| Right-of-use assets | | 423,537 | 439,710 |
| Goodwill | 12 | 3,052 | – |
| Other intangible assets | | 8,643 | 8,903 |
| Prepayments for non-current assets | | 991 | 1,068 |
| Contract costs | | 8,722 | 5,834 |
| Total non-current assets | | 1,682,949 | 1,647,693 |
| CURRENT ASSETS | | | |
| Prepayments, other receivables and other assets | | 29,773 | 8,641 |
| Accounts receivable | 10 | 615 | 5,961 |
| Amounts due from related parties | 15(c) | 32,939 | 57,575 |
| Amount due from a director | 15(c) | 2,450 | – |
| Financial assets at fair value through profit or loss | 16 | 114,469 | 70,047 |
| Contract costs | | 4,712 | 6,663 |
| Cash and cash equivalents | | 282,492 | 482,393 |
| Total current assets | | 467,450 | 631,280 |
| CURRENT LIABILITIES | | | |
| Contract liabilities | 4 | 41,789 | 151,830 |
| Other payables and accruals | | 126,096 | 140,504 |
| Interest-bearing bank and other borrowings | | 81,372 | 83,415 |
| Lease liabilities | | 23,925 | 25,210 |
| Tax payable | | 14,802 | 16,985 |
| Amount due to a related party | 15(c) | – | 467 |
| Deferred income | | 5,457 | 5,366 |
| Total current liabilities | | 293,441 | 423,777 |
| NET CURRENT ASSETS | | 174,009 | 207,503 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,856,958 | 1,855,196 |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 JUNE 2022

| | Note | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|---|------|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,856,958</u> | <u>1,855,196</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | | 162,155 | 185,009 |
| Lease liabilities | | 118,054 | 123,167 |
| Deferred income | | 88,818 | 91,495 |
| Total non-current liabilities | | <u>369,027</u> | <u>399,671</u> |
| Net assets | | <u>1,487,931</u> | <u>1,455,525</u> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 11 | 11,124 | 11,124 |
| Reserves | | 1,476,689 | 1,444,401 |
| | | <u>1,487,813</u> | <u>1,455,525</u> |
| Non-controlling interests | | 118 | — |
| Total equity | | <u>1,487,931</u> | <u>1,455,525</u> |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Attributable to owners of the parent | | | | | | | | |
|---|--------------------------------------|--|-------------------------------------|---|---|-----------------------------|------------------|--------------------------------------|-------------------------|
| | Share capital RMB'000 | Capital reserve – share premium RMB'000 | Capital reserve – others RMB'000 | Statutory and other reserves RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2022 (audited) | 11,124 | 407,522 | 5,593 | 243,384 | 23 | 787,879 | 1,455,525 | - | 1,455,525 |
| Profit for the period | - | - | - | - | - | 92,682 | 92,682 | (19) | 92,663 |
| Other comprehensive income for the period: | | | | | | | | | |
| Exchange differences on translation of financial statements | - | - | - | - | 233 | - | 233 | - | 233 |
| Total comprehensive income for the period | - | - | - | - | 233 | 92,682 | 92,915 | (19) | 92,896 |
| Acquisition of a subsidiary (note 12) | - | - | - | - | - | - | - | 137 | 137 |
| Final 2021 dividend declared | - | - | - | - | - | (60,627) | (60,627) | - | (60,627) |
| Transfer from retained profits | - | - | - | 9,627 | - | (9,627) | - | - | - |
| At 30 June 2022 (unaudited) | <u>11,124</u> | <u>407,522*</u> | <u>5,593*</u> | <u>253,011*</u> | <u>256*</u> | <u>810,307*</u> | <u>1,487,813</u> | <u>118</u> | <u>1,487,931</u> |

* These reserve accounts comprise the consolidated reserves of RMB1,476,689,000 in the unaudited interim condensed consolidated statement of financial position as at 30 June 2022.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Attributable to owners of the parent | | | | |
|--|--------------------------------------|---|--|--------------------------------|----------------------------|
| | Share capital RMB'000 | Capital reserve – others RMB'000 | Statutory and other surplus reserves RMB'000 | Retained profits RMB'000 | Total equity RMB'000 |
| At 1 January 2021 (audited) | 9 | 5,593 | 226,805 | 650,520 | 882,927 |
| Profit for the period | - | - | - | 126,530 | 126,530 |
| Total comprehensive income for the period | - | - | - | 126,530 | 126,530 |
| Transfer from retained profits | - | - | 25,828 | (25,828) | - |
| At 30 June 2021 (unaudited) | 9 | 5,593 | 252,633 | 751,222 | 1,009,457 |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 93,892 | 128,599 |
| Adjustments for: | | | |
| Finance costs | | 7,453 | 9,437 |
| Bank interest income | 4 | (1,979) | (1,153) |
| Fair value gain, net: | | | |
| Financial assets at fair value through profit or loss | 4 | (1,116) | (610) |
| Government grants released | 4 | (4,856) | (5,004) |
| Gain on termination of a lease | 4 | – | (319) |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 5 | 112 | (8,940) |
| Reversal of provision for impairment of accounts receivable | 5 | (49) | – |
| Depreciation of property, plant and equipment | 5 | 24,658 | 22,483 |
| Depreciation of investment properties | 5 | 965 | 2,744 |
| Depreciation of right-of-use assets | 5 | 16,173 | 14,414 |
| Amortisation of other intangible assets | 5 | 901 | 1,062 |
| | | 136,154 | 162,713 |
| Decrease in accounts receivable | | 5,395 | 3,563 |
| Increase in prepayments, other receivables and other assets | | (20,824) | (2,191) |
| (Increase)/decrease in contract costs | | (937) | 3,476 |
| (Decrease)/increase in amounts due from related parties | | 24,636 | (24,199) |
| (Decrease)/increase in other payables and accruals | | (15,593) | 18,769 |
| Decrease in amounts due to related parties | | (467) | (713) |
| Decrease in contract liabilities | | (110,041) | (147,374) |
| | | 18,323 | 14,044 |
| Cash generated from operations | | | |
| Bank interest received | 4 | 1,979 | 1,153 |
| Mainland China corporate income tax paid | | (3,412) | (3,483) |
| | | 16,890 | 11,714 |
| Net cash flows from operating activities | | | |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Net cash flows from operating activities | | <u>16,890</u> | <u>11,714</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of a subsidiary | 12 | (2,100) | – |
| Advances of loan to a director | 15(c) | (2,450) | – |
| Increase in an amount due to a director | | – | 3,077 |
| Acquisition of non-controlling interests of a subsidiary | | – | (77,401) |
| Purchases of financial assets at fair value through profit or loss | | (195,000) | (189,000) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 151,694 | 196,800 |
| Additions to other intangible assets | | (641) | (2,128) |
| Purchases of items of property, plant and equipment | | (65,211) | (19,641) |
| Proceeds from disposal of items of property, plant and equipment | | 318 | 14,770 |
| Receipt of government grants | | <u>2,270</u> | <u>1,649</u> |
| Net cash flows used in investing activities | | <u>(111,120)</u> | <u>(71,874)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank and other borrowings | | 24,090 | 27,450 |
| Repayments of bank and other borrowings | | (49,300) | (112,150) |
| Dividends paid | | (60,627) | – |
| Interest paid | | (8,203) | (15,883) |
| Lease payments | | <u>(11,631)</u> | <u>(3,902)</u> |
| Net cash flows used in financing activities | | <u>(105,671)</u> | <u>(104,485)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | <u>(199,901)</u> | <u>(164,645)</u> |
| Cash and cash equivalents at beginning of period | | <u>482,393</u> | <u>288,446</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | <u><u>282,492</u></u> | <u><u>123,801</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | <u>282,492</u> | <u>123,801</u> |
| Cash and cash equivalents as stated in the unaudited interim condensed consolidated statement of financial position and the unaudited interim condensed consolidated statement of cash flows | | <u><u>282,492</u></u> | <u><u>123,801</u></u> |

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2022

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 address of the registered office 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 Reporting Period, the Company and its subsidiaries are principally engaged in providing private higher vocational education in the People's Republic of China (the "PRC").

2.1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountant. The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

The unaudited interim condensed consolidated 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 accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial statements.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and the impact of the revised HKFRSs 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* 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 adopted 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 period, 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, 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 while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

- (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 amendments that are 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 to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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 Reporting Period, 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 Reporting Period (2021: Nil).

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2022

4. REVENUE, OTHER INCOME AND GAINS

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

| | Notes | For the six months ended | |
|---|-------|--------------------------|----------------|
| | | 2022 | 2021 |
| | | RMB'000 | RMB'000 |
| | | (Unaudited) | (Unaudited) |
| Revenue | | | |
| <i>Revenue from contracts with customers</i> | | | |
| Tuition fees | (a) | 239,584 | 259,185 |
| Boarding fees | (a) | 20,563 | 23,147 |
| Other education service fees | (b) | 4,401 | 3,713 |
| | | <u>264,548</u> | <u>286,045</u> |
| Other income and gains | | | |
| Bank interest income | | 1,979 | 1,153 |
| Fair value gain, net: | | | |
| Financial assets at fair value through profit or loss | | 1,116 | 610 |
| Rental income | | 14,653 | 30,540 |
| Brand licensing income | 15(b) | 692 | 1,860 |
| Training income | | 5,559 | 5,918 |
| Government grants: | | | |
| Related to assets | (c) | 2,730 | 2,530 |
| Related to income | (d) | 2,126 | 2,474 |
| Gain on disposal of items of property, plant and equipment, net | | – | 8,940 |
| Gain on termination of a lease | | – | 319 |
| Written-off of an amount due to a related party | 15(c) | 467 | – |
| Others | | 343 | 60 |
| | | <u>29,665</u> | <u>54,404</u> |

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.

4. REVENUE, OTHER INCOME AND GAINS (Continued)

- (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.

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 period/year are as follows:

| | Six months ended 30 June 2022 RMB'000 (Unaudited) | Year ended 31 December 2021 RMB'000 (Audited) |
|---|--|---|
| At the beginning of the period/year | 151,830 | 167,856 |
| Revenue recognised that was included in the balance of contract liabilities at the beginning of the period/year | (149,025) | (165,949) |
| Increases due to cash received, including amounts recognised as revenue during the period/year | 156,451 | 474,939 |
| Revenue recognised that was not included in contract liabilities at the beginning of the period/year | (116,446) | (322,132) |
| Transfer to refund liabilities | (1,021) | (2,884) |
| At the end of the period/year | <u>41,789</u> | <u>151,830</u> |

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2022

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Contract liabilities (Continued)

Revenue recognised in relation to contract liabilities

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

| | For the six months ended 30 June | |
|--|-------------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Revenue recognised that was included in the balance of contract liabilities at the beginning of the period | | |
| Tuition fees | 133,023 | 149,233 |
| Boarding fees | 16,002 | 18,623 |
| | <u>149,025</u> | <u>167,856</u> |

Unsatisfied performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2022 are as follows:

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Expected to be recognised within one year: | | |
| Tuition fees | 41,437 | 135,594 |
| Boarding fees | 352 | 16,236 |
| | <u>41,789</u> | <u>151,830</u> |

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 unaudited interim condensed consolidated statement of financial position.

5. PROFIT BEFORE TAX

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

| | Notes | For the six months ended 30 June | |
|---|-------|-------------------------------------|--------------------------------|
| | | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Employee benefit expense (excluding directors' and chief executive's remuneration): | | | |
| Wages and salaries | | 78,379 | 79,004 |
| Pension scheme contributions (defined contribution scheme)**** | | 8,323 | 7,430 |
| | | <u>86,702</u> | <u>86,434</u> |
| Depreciation of property, plant and equipment | | 24,658 | 22,483 |
| Depreciation of investment properties | | 965 | 2,744 |
| Depreciation of right-of-use assets | | 16,173 | 14,414 |
| Amortisation of other intangible assets* | | 901 | 1,062 |
| Lease payments not included in the measurement of lease liabilities | | 4 | 2,376 |
| Reversal of provision for impairment of accounts receivable | | (49) | – |
| Direct operating expenses arising from rental-earning investment properties*** | | 3,676 | 5,337 |
| Donation expenses*** | | 2 | 2 |
| Fair value gain, net | | | |
| Financial assets at fair value through profit or loss | 4 | (1,116) | (610) |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 9 | 112 | (8,940) |
| Gain on termination of a lease | 4 | – | (319) |
| Written-off of an amount due to a related party | 4 | (467) | – |
| Bank interest income | 4 | (1,979) | (1,153) |
| Government grants** | 4 | (4,856) | (5,004) |
| Auditor's remuneration | | 1,400 | 700 |
| Listing expenses | | – | 7,774 |
| Exchange loss, net**** | | 658 | – |

* The amortisation of other intangible assets is included in cost of sales in the unaudited interim condensed 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 unaudited interim condensed 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

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies ACT of the Cayman Islands and accordingly is not subject to income tax from business carried out in the Cayman Islands.

Lingnan Education Investment Limited, the Company's directly held subsidiary, was incorporated in the British Virgin Islands ("BVI") as an exempted company with limited liability under the BVI Companies ACT and accordingly is not subject to income tax from business carried out in the BVI.

South China Vocational Education Group (Hong Kong) Limited, a subsidiary incorporated in Hong Kong, is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Reporting Period.

Pursuant to the decision (the "2016 Decision") of the Standing Committee of the National People's Congress on Amending the Private Schools Promotion Law of the PRC 《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》, which was promulgated on 7 November 2016 and came into force on 1 September 2017, private schools are no longer being classified as either schools for which the school sponsor(s) require reasonable returns or schools for which the school sponsor(s) do not require reasonable returns. Instead, the school sponsor(s) of a private school may choose for the school to be a for-profit private school or a non-profit private school, with the exception that schools providing nine-year compulsory education must be non-profit.

On 14 May 2021, the State Council released the Regulations for the Implementation of the Private Education Promotion Law of the PRC 《中華人民共和國民辦教育促進法實施條例》 with an effective date of 1 September 2021 (the "2021 Implementation Rules"). The 2021 Implementation Rules are the detailed implementation rules of the Private Schools Promotion Law of the PRC. Pursuant to the 2016 Decision and the 2021 Implementation Rules, a private school may enjoy the preferential tax policies, which are not defined under neither the 2016 Decision nor the 2021 Implementation Rules, as stipulated by the related government authorities and a non-profit school may enjoy the same tax policies as enjoyed by a public school.

6. INCOME TAX (Continued)

According to the Implementing Opinions of the Guangdong Provincial Government on Encouraging Private Entities and Individuals to Operate Schools and Promote 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》, which was promulgated by the People's Government of Guangdong Province on 4 May 2018 and the 2016 Decision, school sponsors of private schools which were established and registered in Guangdong prior to 7 November 2016 may choose for the schools to be for-profit private schools or non-profit private schools at their own discretion, except for the schools providing compulsory education, which must be non-profit. However, the Implementing Measures of Classification Registration for Private Schools 《關於民辦學校分類登記的實施辦法》, which was promulgated by five departments of the Guangdong province government and came into effect on 30 December 2018, does not specify a deadline for the existing private schools to elect to be registered as non-profit or for-profit private schools. As at the date of approval of these financial statements, Guangdong Lingnan Institute of Technology and Guangdong Lingnan Modern Technician College (the "PRC Schools") have not yet registered as for-profit private schools or non-profit private schools and remain as private non-enterprise units.

Considering that the relevant tax policies regarding schools for which the school sponsor(s) require reasonable returns or schools for which the school sponsor(s) do not require reasonable returns remain unchanged and the PRC Schools remain as private non-enterprise units and, in accordance with the historical tax compliance confirmations obtained from the local tax authorities and the Group's external legal advisor's comments on the preferential tax treatments, the PRC Schools treated their academic education income as non-taxable income and did not pay corporate income tax for the academic education income during the Reporting Period. In the event the PRC Schools elect to register as for-profit private schools, the PRC Schools may be subject to corporate income tax ("CIT") at a rate of 25% in respect of service fees they receive from the provision of academic educational services going forward, if they do not enjoy any preferential tax treatment.

Pursuant to the PRC CIT Law and the respective regulations, the Group's non-school subsidiaries which operate in Mainland China are generally subject to CIT at a rate of 25% on their taxable income.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2022

6. INCOME TAX (Continued)

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

| | For the six months ended 30 June | |
|---|-------------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Current – Mainland China Charge for the period | <u>1,229</u> | <u>2,069</u> |

7. DIVIDENDS

| | For the six months ended 30 June | |
|--|-------------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Final declared and paid – HK5.6 cents (six months ended 30 June 2021: Nil) per ordinary share | <u>60,627</u> | <u>–</u> |

No interim dividend has been declared by the Company during the Reporting Period (six months ended 30 June 2021: Nil).

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,334,000,000 in issue during the Reporting Period (six months ended 30 June 2021: 1,000,000,000).

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts for the period ended 30 June 2021 was based on the weighted average number of ordinary shares in issue during the period and 999,000,000 ordinary shares of the Company issued under the capitalisation issue occurred after the Reporting Period, as if these additional shares issued under the capitalisation issue had been completed throughout the period ended 30 June 2021.

The calculation of the diluted earnings per share amounts is based on the profit for the period 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 period, 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 periods ended 30 June 2022 and 2021.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2022

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

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

| | For the six months ended 30 June | |
|--|---|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations | <u>92,682</u> | <u>126,530</u> |
| | | |
| | Number of shares For the six months ended 30 June | |
| | 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 | <u>–</u> | <u>999,000,000</u> |
| | | |
| Weighted average number of ordinary shares used in the basic and diluted earnings per share calculations | <u>1,334,000,000</u> | <u>1,000,000,000</u> |

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired assets at a cost of RMB71,600,000 (six months ended 30 June 2021: RMB34,458,000), excluding property, plant and equipment acquired through a business combination disclosed in note 12 to the unaudited interim condensed consolidated financial statements.

Assets with a net book value of RMB430,000 were disposed of by the Group during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB5,830,000), resulting in a net loss on disposal of RMB112,000 (six months ended 30 June 2021: net gain of RMB8,940,000).

10. ACCOUNTS RECEIVABLE

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:

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|------------------|---|---|
| Within one year | 599 | 5,911 |
| One to two years | 16 | 50 |
| | <u>615</u> | <u>5,961</u> |

11. SHARE CAPITAL

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Issued and fully paid: 1,334,000,000 (31 December 2021: 1,334,000,000) ordinary shares | <u>11,124</u> | <u>11,124</u> |

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2022

12. BUSINESS COMBINATION

On 23 March 2022, the Group acquired 80% interest in Qingyuan Lingnan Driving School Co., Ltd. (清遠嶺南有家汽車培訓有限公司) (“Lingnan Driving”) from third parties. Lingnan Driving is primarily engaged in the provision of drivers training services. The purchase consideration for the acquisition was in the form of cash of RMB3,600,000, which has been paid in full in April 2022.

The fair values of the identifiable assets and liabilities of Lingnan Driving as at the date of acquisition were as follows:

| | Fair Value recognised on acquisition RMB'000 (Unaudited) |
|---|--|
| Property, plant and equipment | 295 |
| Prepayments and other receivables | 308 |
| Cash and cash equivalents | 1,500 |
| Other payables | (1,418) |
| Total identifiable net assets at fair value | <u>685</u> |
| non-controlling interests | (137) |
| Goodwill on acquisition | <u>3,052</u> |
| Satisfied by cash | <u><u>3,600</u></u> |

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | RMB'000 (Unaudited) |
|---|------------------------|
| Cash consideration | (3,600) |
| Cash and bank balances acquired | <u>1,500</u> |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | <u><u>(2,100)</u></u> |

12. BUSINESS COMBINATION *(Continued)*

The fair values of other receivables as at the date of acquisition approximated to their contract amounts.

No transaction cost incurred for this acquisition.

Since the acquisition, Lingnan Driving had no contribution to the Group's revenue and contributed loss of RMB96,000 to the consolidated profit for the six months ended 30 June 2022.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the period would have been RMB264,548,000 and RMB92,454,000, respectively.

13. CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (31 December 2021: Nil).

14. COMMITMENTS

The Group had the following capital commitments at the end of the Reporting Period:

| | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|-----------------------------------|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | <u>40,211</u> | <u>88,063</u> |

15. RELATED PARTY TRANSACTIONS

The Directors are of the view that the following persons and companies are related parties that had material transactions or balances with the Group during the period.

(a) Name and relationship of related parties

| Name | Relationship |
|---|--|
| Mr. He Huishan (賀惠山) | Director of the Company and one of the shareholders |
| Ms. Zhou Lanqing (周蘭慶) | Spouse of Mr. He Huishan and one of the shareholders |
| Ms. He Huifen (賀惠芬) | Director of the Company, one of the shareholders and sister of Mr. He Huishan and Ms. He Huifang |
| Ms. He Huifang (賀惠芳) | Director of the Company, one of the shareholders and sister of Mr. He Huishan and Ms. He Huifen |
| Mr. Du Wenyu(杜文宇) | Spouse of Ms. He Huifang |
| Mr. Han Liqing (韓利慶) | Spouse of Ms. He Huifen |
| Guangzhou Lingnan Tongwen Education Investment Management Co., Ltd.* (廣州嶺南同文教育投資管理有限公司, “Tongwen Investment”) | A limited liability company indirectly owned by Ms. He Huifen, Mr. Han Liqing, Ms. Zhou Lanqing and Ms. He Huifang |
| Guangzhou Lingnan Health Valley Investment Co., Ltd.* (廣州嶺南養生谷投資有限公司, “Health Valley”) | A limited liability company controlled by Mr. He Huishan and Ms. Zhou Lanqing |
| Guangzhou Lingnan Vocational Training School* (廣州市嶺南職業培訓學校, “Vocational Training School”) | A school controlled by Ms. He Huifen |
| Guangzhoushi Huangpuqu Lingnan Shuyuan Academy Training Center* (廣州市黃埔區嶺南書院培訓中心, “Huangpu Training Center”) | A company controlled by Mr. Du Wenyu |
| Guangzhou Tianhe Lingnan International Kindergarten (“Lingnan International Kindergarten”) | A school controlled by Mr. He Huishan |
| Guangzhou Tianhe Lingnan International School (“Lingnan International School”) | A school controlled by Ms. He Huifang |

* The English names of these companies established in the PRC represent the best effort made by the Directors to translate the Chinese names as they have not been registered with any official English names.

15. RELATED PARTY TRANSACTIONS (Continued)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

| | For the six months ended 30 June | |
|-------------------------|-------------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Rental income | | |
| Tongwen Investment | 288 | 11,663 |
| Health Valley | 5,942 | 8,718 |
| Huangpu Training Center | 73 | – |
| | <u>6,303</u> | <u>20,381</u> |

The rental income was made according to the published prices and conditions offered to the other third party lessees of the Group.

Tongwen Investment is primarily engaged in the provision of primary and secondary school education through Guangzhou Kaifaqu Foreign Language School Affiliated to the South China Normal University (廣州開發區華南師範大學附屬外國語學校, the “Foreign Language School”) it owns.

Under the property lease agreements to which Tongwen Investment is the lessee, the Group sub-leased certain properties to Tongwen Investment for use by Foreign Language School, which provides compulsory education. The Group terminated the leases as lessee and the sub-leasing arrangement as lessor on 31 August 2021 except for one property with gross floor area of 790.18 sq. m. which was used directly by Tongwen Investment.

| | For the six months ended 30 June | |
|------------------------------------|-------------------------------------|--------------------------------|
| | 2022 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) |
| Brand licensing income | | |
| Lingnan International School | – | 1,001 |
| Lingnan International Kindergarten | 692 | 859 |
| | <u>692</u> | <u>1,860</u> |

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15. RELATED PARTY TRANSACTIONS (Continued)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period: (Continued)

The brand licensing income was received for the brand name used by Lingnan International School and Lingnan International Kindergarten. The fees were charged pursuant to the normal commercial terms in the agreements signed between the Group and Lingnan International School and Lingnan International Kindergarten, respectively. The brand licensing cooperation agreement entered into by the Group with Lingnan International School has been terminated on 31 August 2021.

- (c) Outstanding balances with related parties

As disclosed in the unaudited interim condensed consolidated statement of financial position, the Group had outstanding balances due from/to related parties at 30 June 2022 as follows:

Amounts due from related parties:

| Name | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|------------------------------------|---|---|
| Tongwen Investment | 18,710 | 41,377 |
| Health Valley | 14,140 | 15,805 |
| Lingnan International Kindergarten | 89 | 393 |
| | <u>32,939</u> | <u>57,575</u> |

The amounts due from related parties were unsecured, interest-free and repayable within one year. The amounts due from related parties were mainly trade in nature, which were caused by the transactions disclosed in note 15(b) to the unaudited interim condensed consolidated financial statements.

Amount due from a director:

| Name | 30 June 2022 RMB'000 (Unaudited) | 31 December 2021 RMB'000 (Audited) |
|----------------|---|---|
| Mr. He Huishan | <u>2,450</u> | <u>—</u> |

The amount due from a director was a loan to the director with period from 15 March 2022 to 14 March 2023, interest at a fixed annual rate of 3.48% and unsecured.

15. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties (Continued)

Amount due to a related party:

| Name | 30 June | 31 December |
|------------------------------|-------------|-------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Lingnan International School | — | 467 |

The amount due to a related party was unsecured, interest-free and repayable on demand.

During the Reporting Period, the Group wrote off an amount due to a related party of RMB467,000 as it is no longer expected to be repaid and recognised a gain on written-off of an amount due to a related party of RMB467,000 for the period (note 5).

(d) Compensation of key management personnel of the Group:

| | For the six months ended | |
|---|--------------------------|--------------|
| | 30 June | |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Salaries, allowances and benefits in kind | 1,420 | 1,403 |
| Performance related bonuses | 12 | 15 |
| Pension scheme contributions | 48 | 64 |
| | <u>1,480</u> | <u>1,482</u> |

The related party transactions in respect of items rental income and brand licensing income above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 30 June 2022, the fair values of the Group's financial assets and liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, accounts receivable, financial assets included prepayments, other receivables and other assets, amounts due from related parties and amount due from a director, financial liabilities included in other payables and accruals, amount due to a related party and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of wealth management products have been estimated by discounting the expected future cash flows using rates currently available for instruments with similar terms. The valuation requires the Directors to make estimates about the expected future cash flows including expected future interest return on maturity of the wealth management products. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the unaudited interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the Reporting Period.

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of the Reporting Period were assessed to be insignificant. The fair values of the non-current portion of interest-bearing bank and other borrowings approximate to their carrying amounts.

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2022

| | Fair value measurement using | | | Total RMB'000 (Unaudited) |
|--|---|--|--|---------------------------------|
| | Quoted prices in active markets (Level 1) RMB'000 (Unaudited) | Significant observable inputs (Level 2) RMB'000 (Unaudited) | Significant unobservable inputs (Level 3) RMB'000 (Unaudited) | |
| Financial assets at fair value through profit or loss | - | 114,469 | - | 114,469 |

As at 31 December 2021

| | Fair value measurement using | | | Total RMB'000 (Audited) |
|--|---|--|--|-------------------------------|
| | Quoted prices in active markets (Level 1) RMB'000 (Audited) | Significant observable inputs (Level 2) RMB'000 (Audited) | Significant unobservable inputs (Level 3) RMB'000 (Audited) | |
| Financial assets at fair value through profit or loss | - | 70,047 | - | 70,047 |

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16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities for which fair values are disclosed:

As at 30 June 2022

| | Fair value measurement using | | | Total RMB'000 (Unaudited) |
|---|---|--|--|---------------------------------|
| | Quoted prices in active markets (Level 1) RMB'000 (Unaudited) | Significant observable inputs (Level 2) RMB'000 (Unaudited) | Significant unobservable inputs (Level 3) RMB'000 (Unaudited) | |
| Non-current portion of interest-bearing bank and other borrowings | - | 162,155 | - | 162,155 |

As at 31 December 2021

| | Fair value measurement using | | | Total RMB'000 (Audited) |
|---|---|--|--|-------------------------------|
| | Quoted prices in active markets (Level 1) RMB'000 (Audited) | Significant observable inputs (Level 2) RMB'000 (Audited) | Significant unobservable inputs (Level 3) RMB'000 (Audited) | |
| Non-current portion of interest-bearing bank and other borrowings | - | 185,009 | - | 185,009 |

During the Reporting Period, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2021: Nil).