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Minsheng Education Group Company Limited

民生教育集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1569)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

HIGHLIGHTS

1. The fruits from the policies in favor of national vocational education is continuously ripened, the market demand is further enlarged

The report of the 20th National Congress of the Communist Party of China pointed out that “education, technology, and talents are the basic and strategic support for the comprehensive construction of a socialist modern nation. It is necessary to coordinate the collaborative innovation of vocational education, higher education, continuing education, and promote the integration of vocational education, industry and education integration, and integration of technology and education”. The newly revised the “Vocational Education Law of the People’s Republic of China” (《中華人民共和國職業教育法》) further improves the legal system of vocational education in the new era, and clearly stipulate that enterprises should play an important role in school operations to promote enterprises’ to participate deeply in vocational education, to utilize capital, technology, knowledge, facilities and equipment to sponsor vocational colleges and vocational training institutions, and to encourage enterprises to sponsor high-quality vocational education. 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》) and the “Opinions on Deepening the Reform of the Construction of the Modern Vocational Education System” (《關於深化現代職業教育體系建設改革的意見》) emphasize that the high-quality development of modern vocational education should be placed in a more prominent position, insist on serving the comprehensive development of students, economic and social development, focus on deepening the integration of industry and education, and to promote the integration of vocational and general education as the key to cultivate more high-quality skilled and technical talents. The Party and the nation have attached great importance to vocational education and promote the reform and development of vocational education with unprecedented strength.

According to statistics from the Ministry of Human Resources and Social Security, the total population of skilled talents in the nation have exceeded 200 million at the end of 2021, of which approximately 60 million were highly-skilled talents, representing more than 26% of the total working population in China, while highly-skilled talents accounted for more than 40% of the total population of skilled talents in countries in Europe and the United States, therefore, there is great room for improvement of the population of highly-skilled talents in China. In October 2022, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the “Opinions on Strengthening the Construction of Highly-Skilled Talent Teams in the New Era”(《關於加強新時代高技能人才隊伍建設的意見》) and proposed that by the end of the “14th Five-Year Plan” period, the proportion of skilled personnel in the employment population shall reach more than 30% and the proportion of highly-skilled talents shall reach one-third of the total population of skilled talents. The room of demand for talents will be further enlarged.

2. Optimize and enhance the Group’s “Internet +” vocational education and comprehensive service capabilities for employment of talents

During the Reporting Period, the Group continued to integrate internal and external resources, continuously strengthened and improved the Group’s integrated vocational education service capabilities of “Enrollment – Assessment – Teaching – Practical Training – Examination – Employment” and gathered resources of learning services and resources of employment services, to improve the comprehensive ability of employment services for talents, to connect colleges, students and enterprises, to realize data interoperability and precise matching employment services for talents, and to become a leading “Internet +” vocational education group in China. At present, the Group has perfected the layout of eight business sectors: (i) online education services, (ii) on-campus education, (iii) vocational ability improvement, (iv) human resources services, (v) integration of digital intelligence, industry and education services, (vi) education informatization services, (vii) examination and evaluation, and (viii) international education, with over 1,900 learning centres in all 31 provinces throughout the nation, cooperation with more than 20 national ministries and institutes, more than 30 industry-leading companies and more than 1,500 colleges and universities, bringing together approximately 850 human resources companies, and approximately 30,000 employers, linking approximately 2.8 million C-end users and approximately 2.7 million of jobs, serving students and users at the total scale of more than 50 million, forming an online + offline “Internet +” vocational education network and talent employment service system covering the whole nation.

3. Attach great importance to the investment in construction of technical infrastructure capabilities, and several core technologies have reached the industry-leading level

During the Reporting Period, the research and development expenses of the Group amounted to approximately RMB117.6 million. As of 31 December 2022, the Group has accumulatively invested more than RMB1 billion in the construction of technical infrastructure capabilities. At present, the Group has 7 national high-tech enterprises, and has undertaken more than 200 national, provincial and ministerial scientific research projects and projects including major national science and technology projects from the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Education, the Ministry of Industry and Information Technology and other national ministries and commissions. In addition, the Group has successively won 4 national and provincial teaching achievement awards and 2 provincial science and technology awards. Furthermore, the Group has more than 100 patents and more than 400 software copyrights, and many core technologies of the Group have reached the industry-leading level.

4. Financial and capital structure have been continuously stable which provide strong support to the future business development

For the year ended 31 December 2022, the revenue of the Group was approximately RMB2,354.0 million, representing a decrease of approximately 1.7% as compared to that of the corresponding period in 2021; earnings before interest, taxes, depreciation and amortization (EBITDA) was approximately RMB965.8 million, representing a decrease of approximately 2.0% as compared to that of the corresponding period in 2021. As of 31 December 2022, the total assets of the Group was approximately RMB11,956.6 million, and its cash reserves was approximately RMB3,477.1 million, representing an increase of approximately 4.5% and 18.4% as compared to those of the corresponding period in 2021, respectively, which lays a solid foundation for future development.

FINAL DIVIDEND

A final dividend in respect of the year ended 31 December 2022 of HK\$4.29 cents per ordinary share (equivalent to RMB3.76 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 28 March 2023, i.e. RMB0.8758 equivalent to HK\$1.00) (2021: HK\$5.32 cents) was proposed pursuant to a resolution passed by the Board on 28 March 2023 and subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company. The expected date of payment of final dividend will be on or no later than Thursday, 31 August 2023.

The board (the “**Board**”) of directors (the “**Directors**”) of Minsheng Education Group Company Limited (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively referred to as the “**Group**” or “**we**”) for the year ended 31 December 2022 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	4	2,353,965	2,394,012
Cost of sales		<u>(1,078,819)</u>	<u>(1,037,051)</u>
Gross profit		1,275,146	1,356,961
Other income and gains	4	280,570	249,894
Selling and distribution expenses		(273,341)	(242,932)
Administrative expenses		(501,042)	(471,342)
Other expenses, net		(71,455)	(100,194)
Finance costs		(163,740)	(130,564)
Share of profit/(loss) of an associate		<u>363</u>	<u>(22)</u>
PROFIT BEFORE TAX	5	546,501	661,801
Income tax expense	6	<u>(33,229)</u>	<u>(54,222)</u>
PROFIT FOR THE YEAR		<u>513,272</u>	<u>607,579</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		<u>(157,537)</u>	<u>35,319</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		<u>(157,537)</u>	<u>35,319</u>

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		<u>71,426</u>	<u>(23,231)</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		<u>71,426</u>	<u>(23,231)</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>(86,111)</u>	<u>12,088</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>427,161</u></u>	<u><u>619,667</u></u>
Profit attributable to:			
Owners of the parent		490,066	576,886
Non-controlling interests		<u>23,206</u>	<u>30,693</u>
		<u><u>513,272</u></u>	<u><u>607,579</u></u>
Total comprehensive income attributable to:			
Owners of the parent		403,955	588,974
Non-controlling interests		<u>23,206</u>	<u>30,693</u>
		<u><u>427,161</u></u>	<u><u>619,667</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic and diluted	7	<u><u>RMB0.1162</u></u>	<u><u>RMB0.1368</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*31 December 2022*

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,210,791	3,061,628
Right-of-use assets		837,230	859,308
Goodwill		2,338,424	2,335,902
Other intangible assets		434,285	519,433
Investment in an associate		2,063	1,545
Financial assets at fair value through profit or loss		14,176	96,539
Deferred tax assets		13,552	10,607
Other non-current assets		190,988	604,352
Total non-current assets		7,041,509	7,489,314
CURRENT ASSETS			
Inventories		10,003	11,590
Trade receivables	8	684,137	606,031
Prepayments, other receivables and other assets		566,089	190,216
Financial assets at fair value through profit or loss		177,755	204,400
Cash and cash equivalents		3,477,088	2,750,227
Restricted bank deposits		–	186,016
Total current assets		4,915,072	3,948,480
CURRENT LIABILITIES			
Trade payables	9	944,220	807,138
Contract liabilities	10	909,607	986,560
Other payables and accruals	11	965,689	1,178,005
Dividend payables		102,428	23
Deferred income		22,832	22,891
Interest-bearing bank and other borrowings		598,051	295,719
Tax payable		21,907	28,091
Put option liability		944,472	–
Total current liabilities		4,509,206	3,318,427
NET CURRENT ASSETS		405,866	630,053
TOTAL ASSETS LESS CURRENT LIABILITIES		7,447,375	8,119,367

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Financial liability at fair value through profit or loss		–	7,840
Deferred income		242,395	260,472
Interest-bearing bank and other borrowings		1,759,483	1,683,208
Other long term liability		264,119	274,777
Payables for compensation fees	<i>11</i>	–	55,116
Deferred tax liabilities		144,262	148,177
Put option liability		–	900,742
		<hr/>	<hr/>
Total non-current liabilities		2,410,259	3,330,332
		<hr/>	<hr/>
Net assets		5,037,116	4,789,035
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		322	322
Reserves		4,815,763	4,591,483
		<hr/>	<hr/>
		4,816,085	4,591,805
		<hr/>	<hr/>
Non-controlling interests		221,031	197,230
		<hr/>	<hr/>
Total equity		5,037,116	4,789,035
		<hr/>	<hr/>

1. CORPORATE AND GROUP INFORMATION

Minsheng Education Group Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 13 December 2005 as an exempted company with limited liability under the laws of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in providing on-campus and online educational services in the People’s Republic of China (the “**PRC**”).

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Minsheng Group Company Limited, which was incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) (which include all International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and interpretations) issued by the International Accounting Standards Board (“**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an equity investment and wealth management products at fair value through profit or loss, a loan to an associate included in other non-current assets and contingent consideration for business combination, which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”), and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year’s consolidated financial statements.

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

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

- (a) on-campus education
- (b) online education

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, non-lease related finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2022

	On-campus education RMB'000	Online education RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,311,676	1,042,289	2,353,965
Intersegment sales	—	1,258	1,258
			<u>2,355,223</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(1,258)</u>
Revenue			<u><u>2,353,965</u></u>
Segment results	520,846	202,822	723,668
Interest income			48,554
Corporate and other unallocated expenses			(65,102)
Finance costs (other than interest on lease liabilities)			<u>(160,619)</u>
Profit before tax			<u><u>546,501</u></u>

The following table presents the asset and liability information of the Group's operating segments as at 31 December 2022.

	On-campus education RMB'000	Online education RMB'000	Total RMB'000
Segment assets	10,000,259	3,135,786	13,136,045
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(1,247,811)
Corporate and other unallocated assets			<u>68,347</u>
Total assets			<u><u>11,956,581</u></u>
Segment liabilities	4,382,442	2,812,425	7,194,867
<i>Reconciliation:</i>			
Elimination of intersegment payables			(1,247,811)
Corporate and other unallocated liabilities			<u>972,409</u>
Total liabilities			<u><u>6,919,465</u></u>
Other segment information			
Share of profit of an associate	(363)	–	(363)
Impairment losses recognised in profit or loss	12,282	4,484	16,766
Depreciation and amortisation	171,505	132,591	304,096
Investment in an associate	2,063	–	2,063
Capital expenditure	<u>312,823</u>	<u>42,834</u>	<u>355,657</u>
Year ended 31 December 2021			
	On-campus education RMB'000	Online education RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	<u>1,251,502</u>	<u>1,142,510</u>	<u>2,394,012</u>
Segment results	620,792	138,940	759,732
Interest income			72,707
Unallocated income and gains			377
Corporate and other unallocated expenses			(42,080)
Finance costs (other than interest on lease liabilities)			<u>(128,935)</u>
Profit before tax			<u><u>661,801</u></u>

The following table presents the asset and liability information of the Group's operating segments as at 31 December 2022.

	On-campus education <i>RMB'000</i>	Online education <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	8,881,313	2,932,829	11,814,142
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(678,669)
Corporate and other unallocated assets			<u>302,321</u>
Total assets			<u><u>11,437,794</u></u>
Segment liabilities	4,389,641	2,086,475	6,476,116
<i>Reconciliation:</i>			
Elimination of intersegment payables			(678,669)
Corporate and other unallocated Liabilities			<u>851,312</u>
Total liabilities			<u><u>6,648,759</u></u>
Other segment information			
Share of loss of an associate	22	–	22
Impairment losses recognised in profit or loss	11,828	(1,439)	10,389
Depreciation and amortisation	165,729	100,507	266,236
Investment in an associate	1,545	–	1,545
Capital expenditure	<u>685,111</u>	<u>64,285</u>	<u>749,396</u>

Geographical information

During the year, all of the Group's revenue was generated in the PRC and over 90% of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

No revenue derived from services provided to a single customer accounted for 10% or more of the total revenue of the Group during the year.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Tuition fees	1,204,604	1,155,390
Boarding fees	107,072	96,112
Distance education services – platform services	365,200	371,718
Distance education services – educational support services	387,818	426,338
Teacher training services	84,817	69,982
Online courses services	39,108	58,164
Commission income	27,914	46,865
Sales of books	27,014	29,359
Examinations and assessments	8,958	24,302
Other education business	101,460	115,782
	<u>2,353,965</u>	<u>2,394,012</u>
<i>Other income and gains</i>		
Investment income from short-term investments measured at fair value through profit or loss	29,985	20,951
Fair value gain on contingent consideration	57,085	–
Rental income:		
Fixed lease payments	18,500	24,988
Variable lease payments	3,997	–
	<u>22,497</u>	<u>24,988</u>
Bank interest income	29,067	54,927
Interest income from a company controlled by the former shareholders of a subsidiary	19,487	17,780
Government grants		
– Related to assets	25,952	22,809
– Related to income	77,694	73,117
Gain on disposal of items of property, plant and equipment	–	1,002
Others	18,803	34,320
	<u>280,570</u>	<u>249,894</u>

5. PROFIT BEFORE TAX

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Depreciation of property, plant and equipment	168,971	154,049
Amortisation of other intangible assets	86,933	68,812
Lease payments not included in the measurement of lease liabilities	15,726	11,303
Depreciation of right-of-use assets	48,192	43,375
Auditor's remuneration	4,900	4,900
Employee benefit expense (including directors' remuneration):		
Wages and salaries	613,964	443,084
Equity-settled share option expense	2,582	5,141
Pension scheme contributions (defined contribution schemes)	167,423	89,793
	<u>783,969</u>	<u>538,018</u>
Foreign exchange differences, net	4,090	980
Impairment of financial assets:		
Impairment of trade receivables	8,722	5,518
Reversal of impairment of trade receivables	-	(1,439)
Impairment of financial assets included in prepayments, other receivables and other assets	8,044	6,310
	<u>16,766</u>	<u>10,389</u>
Investment income from short-term investments measured at fair value through profit or loss	(29,985)	(20,951)
Bank interest income	(29,067)	(54,927)
Interest income from a company controlled by the former shareholders of a subsidiary	(19,487)	(17,780)
Fair value loss from an equity investment at fair value through profit or loss	21,164	15,830
Fair value loss from a loan to an associate included in other non-current assets measured at fair value	17,986	10,133
Fair value loss from short-term investments at fair value through profit or loss	4,787	-
Fair value (gain)/loss from contingent consideration at fair value through profit or loss	(57,085)	53,054
Loss/(gain) on disposal of items of property, plant and equipment and right-of use assets, net	1,385	(1,002)
Donation expenses	8,425	8,993
	<u>8,425</u>	<u>8,993</u>

6. INCOME TAX

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	35,971	50,652
Overprovision in prior years	4,118	(724)
Deferred	<u>(6,860)</u>	<u>4,294</u>
	<u>33,229</u>	<u>54,222</u>

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,217,720,000 (2021: 4,217,720,000) in issue during the year.

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>490,066</u>	<u>576,886</u>
	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>4,217,720,000</u>	<u>4,217,720,000</u>

8. TRADE RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	707,591	621,069
Impairment	<u>(23,454)</u>	<u>(15,038)</u>
	<u>684,137</u>	<u>606,031</u>

An ageing analysis of the trade receivables as at the end of the reporting year, based on the transaction date and net of loss allowance, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 year	641,237	600,169
1 to 2 years	42,297	5,206
2 to 3 years	364	572
Over 3 years	<u>239</u>	<u>84</u>
	<u>684,137</u>	<u>606,031</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At beginning of year	15,038	489
Acquisition of subsidiaries	–	10,470
Impairment losses	8,722	5,518
Reversal	–	(1,439)
Amount written off as uncollectible	<u>(306)</u>	<u>–</u>
At end of year	<u>23,454</u>	<u>15,038</u>

9. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 year	914,985	790,112
1 to 2 years	16,934	12,259
2 to 3 years	7,696	3,410
Over 3 years	4,605	1,357
	<u>944,220</u>	<u>807,138</u>

10. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<i>Short-term advances received from customers</i>		
Tuition fees	631,833	620,510
Boarding fees	70,185	65,108
Distance education service fees	151,825	226,852
Teacher training services	37,117	43,582
Other education business	18,647	30,508
	<u>909,607</u>	<u>986,560</u>

11. OTHER PAYABLES AND ACCRUALS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current portion:		
Accrued bonuses and other employee benefits	95,844	120,257
Payables for catering services	4,156	6,954
Payables for purchase of property, plant and equipment	299,304	365,119
Payables for management fees	21,124	20,340
Payables for compensation fees	60,000	60,000
Miscellaneous expenses received from students (<i>note (i)</i>)	102,465	71,479
Tuition fees received from students (<i>note (ii)</i>)	212,753	280,945
Other tax payable	11,730	17,907
Payables for audit fee	2,925	3,125
Payables for interest	1,855	1,240
Refund liabilities	1,282	542
Consideration payable for business combination	57,225	156,215
Payables to the non-controlling shareholder of subsidiaries	20,000	20,000
Other payables	<u>75,026</u>	<u>53,882</u>
	<u>965,689</u>	<u>1,178,005</u>
Non-current portion:		
Payables for compensation fees	<u>-</u>	<u>55,116</u>

Other payables are non-interest-bearing and repayable on demand.

Notes:

- (i) The amounts represent the miscellaneous expenses received from students which will be paid out on behalf of the students.
- (ii) The amounts represent the payment of tuition fees from students received on half of cooperative universities. The balance would be remitted to cooperative universities within one year.

12. DIVIDENDS AND EVENT AFTER THE REPORTING PERIOD

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Proposed final – RMB3.76 cents (2021: RMB4.32 cents) per ordinary share	<u>158,744</u>	<u>182,274</u>

Subsequent to the end of the Reporting Period, the board of directors recommended the payment of a final dividend of RMB3.76 cents per share totaling RMB158.7 million for the year ended 31 December 2022. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

POLICY REVIEW OF THE REPORTING PERIOD

According to statistics from the Ministry of Human Resources and Social Security, the total population of skilled talents in the nation have exceeded 200 million at the end of 2021, of which approximately 60 million were highly-skilled talents, representing more than 26% of the total working population in China, while highly-skilled talents accounted for more than 40% of the total population of skilled talents in countries in Europe and the United States, therefore, there is great room for improvement for the population of highly-skilled talents in China. Therefore, vigorously developing vocational education is crucial to improving China's high-skilled talents in various industries. Vocational education has become an important cornerstone and strong support for China's economic development, the construction of a strong nation, and national rejuvenation. In recent years, favourable national vocational education policies have been issued frequently, including:

1. In October 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued 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》), proposed a diversified school-operating pattern, encouraging listed companies and industry leaders to sponsor vocational education, encouraged vocational colleges to cooperate with enterprises to jointly establish industrial colleges, encouraged vocational colleges and social capital to jointly build vocational education training bases, and proposing that the enrolment scale of undergraduate level of vocational education should not be less than 10% of the enrolment scale of junior college of vocational education by 2025;
2. In May 2022, the newly revised "Vocational Education Law of the People's Republic of China" (《中華人民共和國職業教育法》) was officially implemented. The new law clarifies that vocational education and general education are of the same important status, and takes multiple measures to promote enterprises to sponsor colleges. It clearly supports social forces to participate in vocational education extensively, encourages, guides and supports enterprises and other social forces to sponsor vocational schools and vocational training institutions in compliance with the laws, and encourages enterprises to deeply participate in the integration of industry and education and school-enterprise cooperation;
3. In September 2022, the executive meeting of the State Council announced supporting policies for special re-financing for equipment renovation and financial support, with education informatization as a key support area. The state supports colleges and universities to reduce financial costs, improve school conditions, implement the strategy of rejuvenating the nation through technology and education, and promote the high-quality development of education through special loans and other means;

4. In October 2022, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the “Opinions on Strengthening the Construction of Highly Skilled Talent Teams in the New Era” (《關於加強新時代高技能人才隊伍建設的意見》), pointing out that skilled talents are an important force supporting China’s manufacturing and China’s creation. By the end of the “14th Five-Year Plan” period, skilled personnel shall be accounted for more than 30% of employment population, and highly-skilled personnel shall be accounted for one-third of the total population of skilled talents;
5. In December 2022, the National Development and Reform Commission issued the “Implementation Plan for the “14th Five-Year Plan” to Expand Domestic Demand Strategy” (《「十四五」擴大內需戰略實施方案》) and proposed to improve the quality of education services, support areas with concentrated population inflows to actively expand the supply of basic education degrees, promote vocational colleges and applied undergraduate colleges to strengthen the construction of enterprise-education integration training bases, and create a number of high-level vocational colleges; and
6. In December 2022, the General Office of the Communist Party of China and the State Council issued the “Opinions on Deepening the Reform of the Modern Vocational Education System” (《關於深化現代職業教育體系建設改革的意見》), emphasizing that the high-quality development of modern vocational education should be placed in a more prominent position, insist on serving the comprehensive development of students, economic and social development, focus on deepening the integration of industry and education, and promote the integration of vocational and general education as the key to cultivate more high-quality skilled and technical talents.

The above-mentioned relevant favourable policies have reflected that the great importance attached to vocational education by the nation and its determined policies of developing high-quality vocational education, and the promotion of vocational education reform is in unprecedented strength.

BUSINESS REVIEW OF THE REPORTING PERIOD

During the Reporting Period, the Group continued to integrate internal and external resources, continuously strengthened and improved the Group’s integrated vocational education service capabilities of “Enrollment-Assessment – Teaching – Practical Training – Examination – Employment” and gathered resources of learning services and resources of employment services, to improve the comprehensive ability of employment services for talents, to connect colleges, students and enterprises, to realize data interoperability and precise matching employment services for talents, and to become a leading “Internet +” vocational education group in China. At present, the Group has perfected the layout of eight business sectors: (i) online education services, (ii) on-campus education, (iii) vocational ability improvement, (iv) human resources services, (v) integration of digital intelligence, industry and education services, (vi) education informatization services, (vii) examination and evaluation, and (viii) international education, with over 1,900 learning centres in all 31 provinces throughout the nation, cooperation with more than 20 national ministries and institutes, more than 30 industry-leading companies and more than 1,500 colleges and universities, bringing together more than 850 human resources companies, and approximately 30,000 employers, linking approximately 2.8 million C-end users and approximately 2.7 million jobs, serving students and users at the total scale of more than 50 million, forming an online

+ offline “Internet +” vocational education network and talent employment service system covering the whole nation.

The main business operations of the Group’s eight business sectors during the Reporting Period are as follows:

1. **Online Education Services**

The Group’s online education services mainly cover online education, open education, adult higher education, self-study examinations and professional degree postgraduate (master’s/doctoral) education. Aiming at adults who need to improve their academic qualifications, through cooperation with key domestic universities, domestic and foreign business schools, provincial open universities and higher vocational colleges, through the national online and offline learning center, the Group provides online learning services for students and users.

Higher academic continuing education online services

The Group’s higher academic continuing education online services are provided by a subsidiary of the Company, namely Beijing Open Distance Education Center Company Limited* (北京奧鵬遠程教育中心有限公司) (“**Open Education**”) and a consolidated affiliated entity of the Company, namely Guangdong Minsheng Online Education Technology Company Limited* (廣東民生在線教育科技有限公司) (“**Minsheng Online**”). As of 31 December 2022, Open Education and Minsheng Online cooperated with approximately 250 domestic key universities, provincial open universities and higher vocational colleges, to provide support services of online education, open education, adult higher education and self-study examination qualification education to approximately 1.05 million students throughout over 1,900 learning centres across the nation.

Postgraduate management education services

The Group’s postgraduate management education services are provided by Doxue Network Technology (Beijing) Company Limited* (都學網絡技術(北京)有限公司) (“**Doxue Network**”), a consolidated affiliated entity of the Company. Doxue Network is a national leading enterprise in postgraduate management education services. Its MBACHina platform is an active online platform in the industry, which gathers professional and famous teachers in the industry to create an intelligent and diversified learning information platform for those who want to improve their academic qualifications, providing information channels for real-time consultation and learning courses that suit their needs. The business school rankings released by the MBACHina platform are widely recognized by the industry, universities and learners, and have extensive influence in the industry. As of 31 December 2022, Doxue Network cooperated with more than 190 domestic and foreign business schools; the platform had newly added approximately 459,000 registered users and the cumulative number of registered users reached approximately 3.14 million.

2. On-campus education

The Group is committed to constructing a vocational education service system for the training of secondary vocational, higher vocational, applied undergraduate and professional postgraduate students. As of 31 December 2022, the Group's schools were located in Chongqing, Shandong, Yunnan, Inner Mongolia, and the Group operated or managed 10 schools (including 7 higher education institutions, 2 secondary vocational schools and 1 high school); the total number of students was 100,141, of which full-time undergraduate students accounted for approximately 58.2%. The Group's schools offer a total of 120 undergraduate majors, 127 higher vocational (junior college) majors, 51 secondary vocational majors and 4 postgraduate cultivation and construction majors. The Group's undergraduate colleges now offer 1 key subject at provincial and above level, 2 key disciplines, 4 key cultivation disciplines, 15 first-class majors and 44 first-class programmes. The Group has established the only provincial level key discipline among private universities in Yunnan Province.

Focusing on the demand for high-quality development, the Group continued to increase the investment and building of teaching team, school environment and equipment. During the Reporting Period, the cost of teachers in the Group's schools was amounted to approximately RMB355.4 million, representing an increase of approximately 10.5% as compared to that of the corresponding period in 2021. The Group continues to improve the teaching environment of its colleges and universities and upgrade the teaching venues and equipment. During the Reporting Period, the Group's schools completed the construction of nearly 110,000 square meters of new teaching buildings, including teaching laboratory buildings, student activity centers, student dormitories, student canteens and etc. There were more than 90 experimental and training labs of various functions were built and/or upgraded, and the relevant capital expenditure was amounted to approximately RMB312.8 million.

The Group attaches great importance to the quality of school operations and education services, and has implemented the concept of "cultivating morality, cultivating people, and putting quality in first priority" throughout the entire process of school operations and services. The quality of school operations, the characteristics of school operations and the effectiveness of educating people have been continuously improved. The construction of teaching of various colleges and universities of the Group has made remarkable achievements, and the quality of school operations has been highly recognized. During the Reporting Period, the mechanical design, manufacturing and automation of Chongqing Institute of Humanities, Science and Technology was approved as a provincial-level first-class undergraduate major construction project; the Japanese, Mathematics and Applied Mathematics majors of Dianchi College of Yunnan University were newly added to the provincial majors of "Double Ten Thousand Plan" (雙萬計劃) of the Ministry of Education, and there were seven first-class majors at the provincial level ranking first among

private universities in Yunnan Province; the financial management and finance majors of Pass College of Chongqing Technology and Business University have been approved by the Ministry of Education as the construction site of first-class undergraduate majors at the provincial level. Furthermore, the Group's schools have won many honors at the provincial and ministerial level, including "National Innovation and Entrepreneurship Education Practice Base" (國家級創新創業教育實踐基地), "National Red Cross Model Unit" (全國紅十字模範單位), and "National Party Construction Work Model Branch" (全國黨建工作樣板支部).

In addition to the Group's higher education institutions located in China, the Group has also invested in higher education institutions in Australia, Singapore and Hong Kong Special Administrative Region, including Australian National Institute of Management and Business in Sydney, Australia, Beacon International College in Singapore, and Hong Kong Nang Yan Vocational College in Hong Kong Special Administrative Region, providing associate degree to postgraduate degree programs.

3. Vocational Ability Improvement

The Group's vocational ability improvement business mainly covers (i) teacher continuing training; (ii) information technology ("IT") vocational training; (iii) cloud training platform; and (iv) vocational qualification certificate training businesses.

(i) *Teacher continuing training*

The Group's teacher continuing training is provided by Open Education. As the pioneer of mobile learning for teachers, the Group has launched platforms such as "Open Distance's Teacher Education Network" (奧鵬教師教育網), "Teacher Training Bao" (師訓寶) and "I-Classmate" (i同學) and other mobile learning application tools, and built a "school-based" training platform, providing all-round, full-process online training, hybrid training and offline training and other support services for educational administrative departments, teacher development centers, primary and secondary schools, colleges and universities and other educational institutions in various places.

As of 31 December 2022, Open Education has trained approximately 8 million teachers, with more than 500 partnered schools, more than 15,000 training projects, and a total of 30TB+ course resources.

Open Education's teacher training case "Two-line promotion and five-step linkage" rural small-scale teacher training model based on a cloud-based cross-school learning community" 《基於雲端跨校學習共同體的「雙線推進 五步聯動」農村小規模教師培訓模式》 was successfully selected as a typical teacher training case in the "China Teacher Training Development Report (2021)" 《中國教師培訓發展報告(2021)》, being the only typical case from training institution being selected.

(ii) *IT vocational training*

The Group's IT vocational training is provided by IMOOC, a subsidiary of Open Education. IMOOC focuses on IT online education, creates cutting-edge IT technology quality courses, and cultivates practical technical talents for enterprises. It has built more than 3,000 high-quality training courses, with nearly 1,000 high-level industry lecturers, and accumulated approximately 23 million users as of 31 December 2022.

IMOOC has been selected into the top 10 of the "Vocational Education APP Ranking List" (職業教育APP排行榜) released by the Chinese Academy of Sciences for consecutive years. It has also been selected in the Apple application store to regularly recommend applications on various topics such as "Helping the Workplace"(助力職場), "Everyone Can Program"(人人能編程) and "Easy Learning to Program"(輕鬆學編程).

(iii) *Cloud training*

As an important part of the "recruitment and training" integrated service system, and based on the educational cloud platform, the Group's cloud training platform focuses on industry applications, integrates resources and services of cloud training providers for co-provision of online training solutions to colleges and universities, provides all-rounded trainings for cultivation of application oriented talents, and facilitates the cultivation of talents and enhancement of comprehensive vocational skills. Currently, the platform has incorporated over 60 training projects, covering 11 categories such as computer, big data, architecture, machinery, pharmaceuticals, finance and trade, radio, film and television, tourism, agriculture, logistics and general education. In particular, general education-oriented trainings apply to most majors, while other specialized trainings cover over 20 undergraduate majors and over 40 junior college majors.

(iv) *Vocational qualification certificate training*

As of 31 December 2022, the Group provided over 40 vocational qualification certificate training programs such as teachers qualification certificate and human resources specialist, with a total of approximately 28,000 person counts trained during the Reporting Period.

4. Human resources services

The Group actively deploys human resources services to create a talent training closed loop that integrates “Recruitment and Training”. A consolidated affiliated entity of the Company, Beijing Xiaoai Intelligent Technology Company Limited*(北京小愛智能科技有限公司) (“**Xiaoai Technology**”) created a skilled talent service platform of “Excellent Learning and Happy Work” (優學樂業), dedicated to providing Chinese skilled talents with high-quality internship training, employment, job selection and professional ability improvement services. Relying on its rich digital experience and landing service capabilities, Xiaoai Technology provides different digital products and solutions as well as a stable one-stop person-time service and technology supply chain for enterprises, human resources organizations and colleges. The platform consists of (i) “Zhigonggong” (智用工)- providing digital employment SaaS for employment enterprises; (ii) “Yunzhiai” (雲智愛) and “Ailingong” (愛靈工) – providing HROSaaS for third-party human resource service agencies; (iii) “School-Enterprise Express” (校企直通車) – providing colleges and universities with an internship employment management system that connects schools, students and enterprises, with first of all, data exchange and display on the same platform. The School-Enterprise Express is also one of the first batch of compliant platforms that complies with the Ministry of Education’s new “Regulations on the Management of Vocational School Student Internships” (《職業學校學生實習管理規定》); and (iv) to provide regional governments with gig job market – a comprehensive solution for the digital gig job market that has SaaS + skills training and capability improvement + talent training base + industry-education integration. The platform aims to solve the employment of the masses, increase the income of the masses, meet the employment needs of enterprises, promote the development of enterprises, and provide needed talent for key regional industries.

As of 31 December 2022, the business of Xiaoai Technology covered 21 provinces throughout the nation, and the platform had approximately 850 human resources companies with over 30,000 employers settling in, linking approximately 2.8 million C-end users and approximately 2.7 million of jobs.

In addition, in 2022, the Group’s universities and colleges actively cooperated with national, provincial and municipal employment authorities to carry out various recruitment activities, and utilized employment platforms at all levels to organize online and on-campus recruitment and visit enterprises to expand jobs, etc. to broaden employment channels. The targeted employment assistance for graduates of Dianchi College of Yunnan University was promoted nationwide as a key case by Chinese Central Television (CCTV). The Group has been committed to continuously delivering outstanding talents for the country’s economic construction and social development for many years. The Group’s colleges and universities have cultivated “National Excellent Communist Youth League Members” (全國優秀共青團員), “National March 8th Red Banner Bearer” (全國三八紅旗手), “Social Practice for College Students to the Countryside Social Practice Activities Outstanding Individuals” (三下乡社會實踐活動優秀個人稱號) A large number of outstanding graduates, including advanced models such as “National University Student Self-improvement Star” (全國大學生自強之星), “National University Student Entrepreneurship Typical Figure” (全國大學生創業典型人物), “Yunnan University Student Person of the Year” (雲南省大學生年度人物).

5. Integration of digital intelligence, industry and education services

In response to the spirit of the national industry-education integration policy, the Group adopts the innovative “N+1+N” model, integrates the resources of leading enterprises in various fields, combines the Group’s strong teaching and research strength and product research and development investment, and builds an integrated platform that supports the integration and cooperation of production and education in secondary and higher vocational schools, technicians and undergraduate colleges. The Group’s integration of industry and education covers various professional groups related to strategic emerging industries such as artificial intelligence, big data, blockchain, information security, intelligent manufacturing, industrial internet, new energy vehicles, intelligent networked vehicles, digital economy, and new media. For the construction of professional groups in colleges and universities, the Group provides products and services including enrollment services, teaching services, course construction services, experimental training room construction, teaching software platform construction, teacher training, student internship, employment and etc.

In the field of industry-education integration, the Group supports flexible and diversified cooperation models, including jointly building municipal-level industry-education integration bases with local governments and industrial parks, undertaking the trusteeship and operation of colleges and universities, and jointly building industrial colleges with colleges and universities, to provide laboratories, courses, information platforms and etc. for the college and universities.

6. Education Informatization Services

The Group attaches great importance to the construction of new education infrastructure. Guided by new development concepts and information technology and oriented to the needs of high quality education development, and by focusing on information networks, platform systems, digital resources, innovative applications, credible security, etc., it constructed a new infrastructure system, created core productivity, and established a user-centric, end-to-end, fully closed-loop education service cloud platform (including IaaS infrastructure, developer platform, multi-cloud resource management platform, middle-level services, technical products, OPEN application center, terminal services, etc.).

The Group’s education informatization services are provided by a consolidated affiliated entity of the Company, namely UMOOC Online Education Technology (Beijing) Company Limited* (優慕課在線教育科技(北京)有限公司) (“**UMOOC**”), Open Education and Doxue Network.

UMOOC provides education and teaching informatization construction, online teaching support, mixed teaching applications and other services for undergraduate colleges (including graduate schools) and vocational colleges across the nation. As of 31 December 2022, UMOOC has partnered with more than 400 undergraduate colleges (including graduate schools) and vocational colleges, and the services provided by UMOOC covered more than 13 million students. The “Campuswit” platform released by Doxue Network is committed to providing business education in major colleges and universities across the country, providing students with a full life cycle and allround one-stop solution, with product covering business education enrollment, online teaching, academic affairs, dissertation, career development, alumni management and other different stages of process.

7. Examination and Evaluation

The examination services of the Group mainly provide online and offline course examinations and unified online education examinations for online education colleges across the nation, Chinese Proficiency Test (“**HSK**”), other social examinations and etc.

Examination and Evaluation services are mainly provided by the subsidiaries of the Company, namely Open Education and Silk Road (Beijing) International Education Technology Center Company Limited* (絲綢之路(北京)國際教育技術中心有限公司) (“**Silk Road**”). Open Education has established a standardized test center system that covers the whole nation and extends to the grassroots level. At the same time, with the help of artificial intelligence, big data, cloud computing and other technologies, it has independently developed an online test system, a question bank system, a test administration system, a monitoring system and an evaluation system.

As of 31 December 2022, Open Education has served approximately 8.6 million division counts throughout the Reporting Period. Silk Road is an industry-leading professional service organization for the HSK online test. It is the world’s first HSK online test center. It has built more than 80 test centers/exams at home and abroad and has accumulated more than 180,000 internet-based examination users.

8. International Education

The Group continues to implement the development concept of “Internet + Chinese + Vocational Education”, and connects government departments, key universities, and industry associations to initiate and operate the MOOC China Alliance, focusing on areas where there is a shortage of two-way talent needs in countries along the Belt and Road. It exports China’s high-quality educational resources, builds an online multilanguage MOOC platform for educational services carrying “Internet + Chinese + Vocational Education”, adopts a hybrid teaching model to serve Chinese training, learning and grade testing for international students from many well-known Chinese universities, and adopted Sino-foreign cooperation in school operation, study abroad, online international education and other methods to cultivate and improve the academic qualifications and abilities of students and in-service personnel, serves China’s application-oriented undergraduate colleges and vocational colleges to “bring in and go out”, cultivates big data and cloud technology, carbon neutrality and other cutting-edge industries along the Belt and Road engineering and technology talents, and builds an international talent pool for the Belt and Road trade connections. In 2022, the Group has made the following key arrangements for international education projects:

Create a closed loop of all-round study abroad services

In July 2022, Open Education and CIIC Technology Group Co., Ltd.* (中智科技集團有限公司) entered into an agreement for the acquisition of 51% equity interest in Shanghai CIIC International Business Development Co., Ltd.*(上海中智國際商務發展有限公司) (currently named as Shanghai Zhiaosheng International Business Development Co., Ltd.* (上海智奧勝國際商務發展有限公司)) (“**CIIC Business**”). CIIC Business is one of the first professional consulting agencies in Shanghai that has been approved by the Ministry of Public Security to operate intermediary services for citizens entering and leaving the country for private purposes. It is also one of the earliest companies in China to provide immigration consulting services. CIIC Business is the first batch of overseas study intermediary service agencies approved by the Ministry of Education and the Shanghai Municipal Education Commission, and has established long-term and stable cooperative relationships with over a thousand of colleges and universities in United States, United Kingdom and other countries, with integrated services including language training, application for study abroad, overseas study tours, internships and employment, overseas services, and international schools, creating a closed loop of all-rounded study abroad services.

Create a comprehensive service platform of “Chinese + Vocational Education”

In December 2022, the Group, Wuzhou Hanfeng Network Technology (Beijing) Co., Ltd.* (五洲漢風網絡科技(北京)有限公司) (an enterprise directly under the China-Foreign Language Exchange and Cooperation Center of the Ministry of Education) and Silk Road entered into an agreement on jointly building a “Chinese + Vocational Education” comprehensive service platform project. The “Chinese + Vocational Education” comprehensive service platform project will focus on the “going out” of vocational education colleges and Chinese-funded enterprises, and focus on the actual needs of Chinese learners around the world, such as language learning, skill improvement, studying in China, exchanges, and tourism. Giving full play to the resources and advantages of the three parties in platformization, digitalization, and intelligence, the Group intends to build a comprehensive service platform of “Chinese + vocational education” integrating education exchanges and cooperation with foreign countries and students studying in China, so as to provide learners from all over the world with more convenient, efficient, and Sustainable integrated services of Chinese language and vocational technical education.

FUTURE OUTLOOK

The Group is a leading “Internet +” vocational education group in China. On this basis, through existing business resources, mergers and acquisitions and strategic cooperation, the Group intend to build an internet platform for the talent digital intelligence service industry that integrates the three major service areas of “learning field, employment field, and entrepreneurship field”. The Group aims to further:

1. comprehensively promote the “online-digital-intelligent” development of learning, employment, and entrepreneurship services, and further improve the comprehensive product and service system for learning, employment, and entrepreneurship;
2. deepen the cooperation with industry-leading enterprises that are urgently needed by the country, seek common development, and become an industry-leading modern enterprise that integrates production and education in multi-industry layout and leads industrial development; and
3. accelerate cooperation with world-renowned universities and scientific research institutions to create a high-level scientific research system and comprehensively enhance the platform’s support capabilities for learning, employment, and entrepreneurship services under the background of future technology. Relying on the platform, promote the transformation of scientific research achievements, deeply support the transformation and upgrading of industries and industrial development, and lead the innovation and development of new formats and forms.

FINANCIAL REVIEW OF THE REPORTING PERIOD

Revenue

Revenue represents the value of services of the Group rendered during the Reporting Period. The Group derives revenue primarily from providing on-campus education and online education services to students and users.

The total revenue slightly decreased by approximately 1.7% to approximately RMB2,354.0 million for the year ended 31 December 2022 from that of approximately RMB2,394.0 million for the year ended 31 December 2021, which was mainly due to decrease in revenue in the distance education services and the online course services during the Reporting Period.

Cost of sales

Cost of sales consists primarily of teaching staff costs, depreciation and amortization, cost of cooperative education, utilities and other costs.

The cost of sales increased by approximately 4.0% from approximately RMB1,037.1 million for the year ended 31 December 2021 to approximately RMB1,078.8 million for the year ended 31 December 2022. This increase was primarily due to (i) the increase in the number of teaching staff and their salaries and allowances; and (ii) the increase in the depreciation and amortization during the Reporting Period.

Gross profit

The gross profit decreased by approximately 6.0% from approximately RMB1,357.0 million for the year ended 31 December 2021 to approximately RMB1,275.1 million for the year ended 31 December 2022, and the gross profit margin decreased from approximately 56.7% to approximately 54.2%, which was mainly due to (i) the decrease in revenue of online education services during the Reporting Period; and (ii) the increase of operating costs in general during the Reporting Period.

Other income and gains

Other income and gains consist primarily of government grants, interest income and rental income and etc.

Other income and gains increased by approximately 12.3% from approximately RMB249.9 million for the year ended 31 December 2021 to approximately RMB280.6 million for the year ended 31 December 2022. This increase was primarily due to (i) the increase in the investment income from short-term investments measured at fair value through profit or loss during the Reporting Period; and (ii) the increase in the government grant and etc. during the Reporting Period.

Selling and distribution expenses

Selling and distribution expenses consist primarily of salaries and other benefits for our staff who are in charge of student recruitment and promoting, promoting expenses and student recruitment expenses and marketing cost of the online education entities.

Selling and distribution expenses increased by approximately 12.5% from approximately RMB242.9 million for year ended 31 December 2021 to approximately RMB273.3 million for the year ended 31 December 2022, which was primarily due to there were new online education entities consolidated to the Group during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation and amortization of office buildings and equipment, environment and health expenses and travel and transportation expenses.

Administrative expenses increased by approximately 6.3% from approximately RMB471.3 million for the year ended 31 December 2021 to approximately RMB501.0 million for the year ended 31 December 2022 due to (i) the increase in salaries and other benefits of the administrative staff during the Reporting Period; and (ii) the increase in the depreciation and amortization expenses during the Reporting Period.

Other expenses, net

Other expenses consist primarily of expenses relating to donations made to third-party educational and other institutions, loss on disposal of property, plant and equipment and the provision of bad debts.

Other expenses decreased by approximately 28.7% from approximately RMB100.2 million for the year ended 31 December 2021 to approximately RMB71.5 million for the year ended 31 December 2022. This decrease was primarily attributable to the expenses relating to the change in of fair value has not occurred during the Reporting Period.

Finance costs

Finance costs mainly include (i) interests on bank loans and other borrowings; and (ii) the interest on the put option liability in connection with the share purchase agreement (the “**Put Option**”) of Leed International Education Group Inc. (“**Leed International**”).

Finance costs has increased by approximately 25.4% from approximately RMB130.6 million for the year ended 31 December 2021 to approximately RMB163.7 million for the year ended 31 December 2022, which was mainly due to the increase of loan and interest rate which led to the increase in the finance costs in general during the Reporting Period.

Profit for the year

As a result of the above factors, profit for the year of the Group decreased by approximately 15.5% from approximately RMB607.6 million for the year ended 31 December 2021 to approximately RMB513.3 million for the year ended 31 December 2022.

Adjusted net profit

The Group defines its adjusted net profit as its profit for the year 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 IFRSs 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:

	Year ended 31 December	
	2022	2021
	RMB’000	RMB’000
Profit for the year	513,272	607,579
Add:		
Unrealised exchange loss	4,829	5,403
Share option expenses	2,582	5,141
Interest of the Put Option liability from the acquisition of Leed International	43,729	41,704
Amortisation of intangible assets due to consolidation	55,348	45,733
Change in fair value (gain)/loss	(13,148)	79,010
Deferred income tax accrued on dividends	15,874	18,657
Adjusted net profit	<u>622,486</u>	<u>803,227</u>

Adjusted net profit for the year ended 31 December 2022 decreased by approximately RMB180.7 million or approximately 22.5% as compared with that of the corresponding period in 2021. Adjusted net profit margin decreased from approximately 33.6% for the year ended 31 December 2021 to approximately 26.4% for the year ended 31 December 2022.

FINANCIAL AND LIQUIDITY POSITION

Net current assets

As at 31 December 2022, the Group had net current assets of approximately RMB405.9 million, which primarily consisted of cash and bank balances. The current assets as at 31 December 2022 increase to approximately RMB4,915.1 million from approximately RMB3,948.5 million as at 31 December 2021. The increase in current assets was primarily attributable to an increase of cash and cash equivalents from approximately RMB2,750.2 million as at 31 December 2021 to approximately RMB3,477.1 million as at 31 December 2022, mainly due to the increase of revenue of tuition fee and accommodation fee of new academic year during the Reporting Period.

The current liabilities increased from approximately RMB3,318.4 million as at 31 December 2021 to approximately RMB4,509.2 million as at 31 December 2022, mainly due to (i) an increase of approximately RMB137.1 million in trade payables; (ii) an increase of approximately RMB302.3 million in interest-bearing bank and other borrowings during the Reporting Period; and (iii) the Put Option liability became current liability in 2022.

Capital commitment

The Group has the following capital commitments at the end of the periods indicated below:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Contracted, but not provided for:		
Equipment	43,553	43,503
Buildings	358,441	367,018
Acquisition of a private school	<u>91,800</u>	<u>91,800</u>
	<u>493,794</u>	<u>502,321</u>

At the end of the Reporting Period, the Group did not have significant capital commitments that are authorized but not contracted for (2021: nil).

Capital expenditure

Capital expenditure for the year ended 31 December 2022 were approximately RMB355.7 million, which was primarily used for (i) the construction of the Group's school buildings, facilities, land acquisition; and (ii) the upgrade of software, hardware and facilities of the Group's online education entities.

Indebtedness

The Group's interest-bearing bank and other borrowings primarily consisted of short-term working capital loans to supplement our working capital and finance our expenditure and long-term project loans for the continuous development of our school buildings and facilities.

The bank loans and other borrowings amounted to approximately RMB2,357.5 million as at 31 December 2022, denominated in Renminbi, United States dollar ("US\$") and Hong Kong dollar ("HK\$"). As at 31 December 2022, our bank loans and other borrowings bore effective interest rates ranging from 2.2% to 7.4% per annum. The loan of Chongqing Zhenzhi Zhiye Co., Ltd.* (重慶臻智置業有限責任公司) (a wholly-owned subsidiary of Chongqing Electronic Information College) amounted to RMB6.14 million, with interest rates ranging from 15%-24% per annum.

The Group maintains a balance between continuity of funding and flexibility through generated cash flows from operating activities and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Contingent liabilities

As at 31 December 2022, the Group did not have material contingent liabilities (2021: nil).

Pledge of assets

As at 31 December 2022, certain of the Group's buildings and land with a net carrying amount of approximately RMB82.7 million (31 December 2021: RMB84.4 million) were pledged to secure bank loans and other borrowings.

Foreign exchange exposure

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

Gearing ratio

The gearing ratio, which is calculated by dividing total borrowings by total equity, increased to approximately 46.8% as at 31 December 2022 from approximately 41.4% as at 31 December 2021, which was due to the increase of bank and other borrowings during the Reporting Period.

Salary increment for employees, training and development

As at 31 December 2022, the Group has approximately 7,500 employees (2021: 7,470 employees).

In 2022, in order to motivate our faculty staff for better work performance, the Group has reviewed and increased the salaries of employees. The increment in salaries is based on their performance, experience and prevailing industry practices, with all compensation policies and packages reviewed on a regular basis. As required by the PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including pension, medical, maternity, work-related injury, unemployment insurance and housing provident fund.

In addition, the Group provides training programs to its existing and newly recruited employees and/or sponsors its employees to attend various job-related training courses.

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to be a transparent and responsible organization which is open and accountable to the shareholders of the Company (the “**Shareholders**”). The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is the foundation to create more value for the Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for its Shareholders.

Throughout the year ended 31 December 2022, the Company has complied with the code provisions set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the model code (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors for the year ended 31 December 2022.

Having made specific enquiry with all Directors, it is confirmed that all Directors have complied with the required standard set out in the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2022.

PAYMENT OF FINAL DIVIDEND

A final dividend in respect of the year ended 31 December 2022 of HK\$4.29 cents per ordinary share (equivalent to RMB3.76 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People’s Bank of China on 28 March 2023, i.e. RMB0.8758 equivalent to HK\$1.00) (2021: HK\$5.32 cents) was proposed pursuant to a resolution passed by the Board on 28 March 2023 and subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company. The expected date of payment of final dividend will be on or no later than Thursday, 31 August 2023. Information regarding the date of the annual general meeting, date of closure of register of members in relation to the annual general meeting and the final dividend and payment date of the final dividend will be further announced separately by the Company in due course.

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

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

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has reviewed and discussed with the management in relation to the accounting principles and practices adopted by the Company, the internal controls and financial report matters, and the Company’s policies and practices on corporate governance. The annual results have been reviewed by the Audit Committee.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.minshengedu.com>). The annual report for the Reporting Period containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to the Group's management and staff members for their dedication and hard work and our Shareholders for their trust and support.

By order of the Board
Minsheng Education Group Company Limited
Li Xuechun
Chairman

Hong Kong, 28 March 2023

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

As at the date of this announcement, the executive Directors are Mr. Li Xuechun, Ms. Zhang Weiping, Mr. Zuo Yichen and Mr. Lam Ngai Lung, the non-executive Directors are Mr. Shen Jinzhou and Ms. Li Yanping, and the independent non-executive Directors are Mr. Chan Ngai Sang, Kenny, Mr. Yu Huangcheng and Mr. Wang Wei Hung, Andrew.