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## **China Maple Leaf Educational Systems Limited**

**中國楓葉教育集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1317)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO RELEVANT MATTERS; AND ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE**

This announcement is made by China Maple Leaf Educational Systems Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance.

Reference is made to the announcement of the Company dated 16 May 2022 (“**Announcement**”) in relation to, among other matters, further delay in publication of the unaudited interim results of the Group (“**Interim Results**”) for the six months ended 28 February 2022 (“**Period**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

#### **THE RELEVANT MATTERS**

As disclosed in the Announcement, on 13 May 2022, the Company received the Letter from the auditor of the Company regarding the Relevant Matters identified during the course of its review of the Interim Results. The purpose of this announcement is to supplement the information in relation to the Relevant Matters. Contents of the Letter verbatim are reproduced in this announcement below.

“We refer to our email communication dated 27 April 2022, 10 May 2022 and 12 May 2022 (the “Email Communication”) and the conference calls between the Audit Committee members and us on 12 May 2022, and the Audit Committee members, management of the Company (Mr. Shu Liang Sherman Jen, Chairman of the Board and CEO, and Ms. Jingxia Zhang, CFO) and us on 13 May 2022 (the “Meeting”). We appreciate the Audit Committee members have taken an active role to closely monitor and review the financing reporting process.

We commenced our interim review fieldwork on 11 April 2022 and requested the Company to provide necessary information for the purpose of our review. However, the Company cannot timely provide quality information, whilst significant changes and updates in numbers in the consolidation worksheet and schedules were provided by the Company from time to time during our review. We have spent a great deal of time and effort to understand management’s underlying explanation to support these changes in many different versions. We have timely provided the latest request lists to management and finance team of the Company during our review, meetings and calls are conducted between finance personnel and us. Up to the date of this letter, certain information and management’s explanation is still outstanding. The latest information request lists have been sent to the Company through email on 11 May 2022 and we advise the Audit Committee to obtain the latest information request lists from the Company for update and closely monitor the progress.

It is important to be noted that further review work or evidence may be required or requested after the Company has provided complete evidence and documents to us.

Apart from these, in conducting the analytical review procedures, significant matters in relation to certain transactions (the “Relevant Matters”) have come to our attention that are significant to the Audit Committee’s oversight of the Company’s financial reporting process. Up to the date of this letter, we have not been provided with adequate and reasonable explanation from management as well as other supporting evidence allowing us to assess the appropriateness of accounting treatment and disclosure on these matters despite of repeated requests.

The Relevant Matters involved the following transactions:

- 1) Management fee received from school canteens operated by third party service providers amounted to RMB32 million for the Period
- 2) Royalty income from the Affected Schools (i.e., the private schools that provide compulsory education, which includes the six years primary school education and the three years middle school education provided to PRC residents, and not-for-profit schools that provides pre-school education) for the Characteristic Intellectual Property Use Rights (特色知识产权授权使用费) amounted to RMB23 million for the Period
- 3) Acquisition of investment property at a consideration of RMB40 million during the Period
- 4) Amounts due from/to the Affected Schools (related parties)

Our observation to the Relevant Matters are as follows:

<b>Relevant Matters</b>	<b>Our observation</b>
1 Management fee received from school canteens operated by third party service providers amounted to RMB32 million for the Period	<ul style="list-style-type: none"><li>• Significant growth by an approximate of RMB26 million or 4.5 times when comparing with the same period of last year.</li><li>• Agreements 《餐饮公司、食堂合作协议》 and 《餐饮公司、食堂合作补充协议》 (collectively “Cooperation Agreements”) were only made available to us on 28 April 2022. It was noted that these Cooperation Agreements were entered into between the subsidiary of the Company, namely Dalian Maple Leaf Catering Service Co., Limited (大连枫叶餐饮服务有限公司) (“Catering Company”) and 24 individuals.</li><li>• Management of the Company explained that these individuals were independent third party to the Company and the Affected Schools, who were not related parties of either the Company or the Affected Schools. These individuals are independent individual subcontractors of the school canteens (“Independent Individual Subcontractors”).</li><li>• Only “Name” of these 24 Independent Individual Subcontractors were appeared on the Cooperation Agreements. In other words, no other identification such as identity card numbers or correspondence address or contact information documented in the Cooperation Agreements. No signing date was indicated on all Cooperation Agreements provided by management.</li></ul>

## Relevant Matters

## Our observation

1 Management fee received from school canteens operated by third party service providers amounted to RMB32 million for the Period

- Based on the Cooperation Agreements with these individuals, the management fee was calculated based on 45% of the turnover of the school canteens effective 1 September 2021. It was only charged at 5% of turnover of the school canteens in the previous years, i.e., up from 5% to 45%. Management did not provide sufficient and reasonable explanation to explain this transaction is at arm's length.
- It was noted that routine monthly transactions were made during the Period as well as subsequent periods in March and April 2022: the relevant transactions accounted for the management fee at 5% of the turnover of the school canteens (amounted to a total of RMB3.5 million) were recorded consistently in the accounting system – Yonyou ledger on monthly basis, which contained supporting documents including detail calculation breakdown, settlement basis with signature of canteen manager or canteen accountant, however, the transactions were settled by the Affected Schools but not the Independent Individual Subcontractors.
- The name of identical Independent Individual Subcontractors was appeared on the acknowledgement of management fee calculation and settlement, however, the individuals were marked as the capacity of “Canteen Manager (食堂经理)” instead of subcontractor.

## Relevant Matters

## Our observation

1 Management fee received from school canteens operated by third party service providers amounted to RMB32 million for the Period

- A late manual accounting entry amounted to RMB27 million has been put through on 28 February 2022 (the balance sheet date) in Yonyou ledger, with the description “Recognition of 2019-2021 school year accrued management fee”. Based on the underlying voucher and supporting documents, it was noted that there were “two sets of voucher” with the same voucher number, journal entries and revenue amounts for this transaction. One voucher with the same description is consistent to Yonyou ledger (i.e., Recognition of 2019-2021 school year accrued management fee) and the calculation was based on the range from 3% to 35% of the turnover of 9 school canteens. Another set of voucher has different description as “Recognition of 2021.9-2022.2 management fee” with completely different calculation basis, which is based on 40% of the turnover of 26 school canteens for the Period.
- Unlike the routine accounting practice of above mentioned “5% management fee”, this single non-routine transaction has no supporting of detail calculation and settlement basis indicating that the Independent Individual Subcontractors agreed with the “management fee charged at 40%”.
- No incremental cost relevant to the performance of the obligations of the Cooperation Agreement was noted to match with the increase of management fee income up from 5% to 45%.
- No adequate disclosure was made in the draft financial statements.

<b>Relevant Matters</b>	<b>Our observation</b>
<p>2 Royalty income from the Affected Schools for the Characteristic Intellectual Property Use Rights amounted to RMB23 million for the Period</p>	<ul style="list-style-type: none"> <li>• New income for the Period: RMB23 million was initially recorded.</li> <li>• Based on a “sample contract” provided by management, it was entered into between an Affected School and a subsidiary of the Group, Tech Global Investment Limited, signed on 1 March 2021.</li> <li>• Management did not provide sufficient and reasonable explanation on the basis of such royalty income is determined.</li> <li>• No duration of right-of-use was specified in the contract.</li> <li>• The Company initially recorded the whole sum of RMB23 million as income based on the payment receipt date (in September 2021). However the Company has subsequently adjusted the income to “Other Payable to the Affected School”, without sufficient explanation on this accounting treatment.</li> </ul>
<p>3 Acquisition of investment property at a consideration of RMB40 million during the Period</p>	<ul style="list-style-type: none"> <li>• It was noted that no evidence to support that relevant payment (cash outflows) was made to the property developer during the Period.</li> <li>• Management explained that the relevant fund was transferred from the Chairman Mr. Jen to Maple Leaf (Cayman) in 2018, and the Company paid the property developer through the Maple Leaf School (PRC) accordingly in 2018. No prepayments for fixed assets or amounts due to director were recorded in the book or disclosed in the previous years’ financial statements.</li> </ul>

Relevant Matters	Our observation
3 Acquisition of investment property at a consideration of RMB40 million during the Period	<ul style="list-style-type: none"> <li>• No board resolution to approve this significant acquisition of investment property.</li> <li>• No adequate approval on OA system for contract signing and payment process.</li> </ul>
4 Amounts due from/to the Affected Schools (related parties)	<ul style="list-style-type: none"> <li>• As of 28 February 2022, there are significant changes in the balance with related parties (Affected Schools).</li> <li>• Based on the ledger provided by the Company, there are large number of funds movement in the Period between the Affected Schools and the Company as well as tuition fees received and capital expenditure paid on behalf of the Affected Schools.</li> </ul>

We suggest the Audit Committee to establish an independent investigation committee to investigate the Relevant Matters and the internal control over financial reporting (“Independent Investigation”) and to engage an independent third party investigator to assist it with the Independent Investigation. It is important to noted that we are not able to complete the interim review before the Independent Investigation is completed. We will also have additional procedures based on the results of the Independent Investigation, thus we are unable to estimate the length of time that it would need to complete the review work.

Professional standards require us to communicate with you regarding matters related to our review that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. As the auditor of the Company, we always communicate with you for any issue or concerns that we come across.”

The Letter is in English language. In the event of any discrepancy between the English version and the Chinese translation, the English version shall prevail.

The Company would like to inform that:

- (1) as at the date of this announcement, the review of the Interim Results have not been completed. The Relevant Matters are the observations of the auditor of the Company only;
- (2) as at the date of this announcement, the Company has not yet responded to such observations;

- (3) the Company will investigate and verify the Relevant Matters; and
- (4) the management of the Company has already endeavoured to provide the assistance within their ability and power during the auditor's review of the Interim Results. However, the resurgence of coronavirus disease (Covid-19) cases in China has hindered certain of the preparation and gathering process of necessary documents and information for the Interim Results.

## **ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE**

In order to address and resolve the Relevant Matters as soon as practicable, on 22 May 2022, the Board resolved to establish an independent board committee of the Board (“**IBC**”) which shall exercise powers, authorities and discretions as delegated by the Board for:

1. conducting an independent investigation into the Relevant Matters (“**Independent Investigation**”) and engaging an independent third party investigator to assist it with the Independent Investigation;
2. exploring the Group's adoption of, or improvements on, internal control system, procedures and mechanisms, where necessary;
3. engaging and/or generally obtaining advice from legal and/or financial professionals and/or experts in connection with the above purposes; and
4. making recommendations to the Board on appropriate actions to be taken.

The IBC shall be made up of all the independent non-executive Directors. As at the date of this announcement, the independent non-executive Directors are Mr. Peter Humphrey Owen, Mr. Alan Shaver and Mr. Lap Tat Arthur Wong. Mr. Lap Tat Arthur Wong was appointed as the chairman of the IBC. All members of the IBC shall be appointed, removed or replaced by the Board. The IBC may also invite other person(s) to attend all or part of its meeting(s).

The Company will make further announcement(s) to inform the Shareholders and potential investors of the appointment and engagement of the independent investigator and the progress and/or results of the Independent Investigation, as and when appropriate.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the shares of the Company (Stock Code: 1317) and the debt securities of the Company (Debt Securities Stock Code: 40564) on the Stock Exchange has been suspended with effect from 9:00 a.m. on 3 May 2022 and will remain suspended until further notice.



**The Company will make further announcement(s) in due course to inform the Shareholders and potential investors of any information update. The Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.**

By Order of the Board  
**China Maple Leaf Educational Systems Limited**  
**Shu Liang Sherman Jen**  
*Chairman and Chief Executive Officer*

Hong Kong, 23 May 2022

*As at the date of this announcement, the Board comprises Mr. Shu Liang Sherman Jen, Ms. Jingxia Zhang and Mr. James William Beeke as Executive Directors; and Mr. Peter Humphrey Owen, Mr. Alan Shaver and Mr. Lap Tat Arthur Wong as Independent Non-executive Directors.*

*\* For identification purposes only*