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枫叶教育

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)

INSIDE INFORMATION – KEY FINDINGS OF THE INTERNAL CONTROL REVIEW REPORT

This announcement is made by China Maple Leaf Educational Systems Limited (“**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) (“**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 27 April 2022, 16 May 2022, 23 May 2022, 30 May 2022, 14 June 2022, 18 July 2022, 25 July 2022, 2 August 2022, 1 November 2022, 30 November 2022, 1 February 2023, 14 April 2023, 18 April 2023, 28 April 2023, 19 June 2023, 28 June 2023 and 4 July 2023 (collectively, the “**Announcements**”) in relation to, among other matters, (i) the delay in publication of the unaudited interim results of the Group for the six months ended 28 February 2022 (“**2022 Interim Results**”); (ii) the suspension of trading in the securities of the Company (“**Suspension**”); (iii) the establishment of the IBC of the Board and the appointment of the independent investigator; (iv) the Resumption Guidance; (v) the resignation of auditor of the Company; (vi) the appointment of auditor of the Company; (vii) the quarterly update on resumption progress; (viii) the delay in publication of the audited annual results of the Group for the year ended 31 August 2022; (ix) the update in relation to compliance with certain conditions of the convertible bonds due 2026 (“**Bonds**”); (x) the relevant event in relation to the Bonds; (xi) the delay in publication of the unaudited interim results of the Group for the six months ended 28 February 2023; and (xii) summary of key findings of the Independent Investigation in the independent forensic accounting investigation report (“**Investigation Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

As disclosed in the announcement of the Company dated 1 November 2022, the Company appointed RSM Consulting (Hong Kong) Limited (“**IC Consultant**”) to conduct an independent review of the existing internal controls and procedures of the Company and make recommendations of remedial measures (“**IC Review**”).

The IC Consultant has finished the IC Review with a review period from 1 September 2021 to 31 August 2022 (“**First Review**”), and with focus on (a) corporate level controls, (b) financial reporting and disclosure controls, (c) revenue management, (d) procurement, accounts payable and payment, (e) investment property, (f) management over related parties transactions, (g) intellectual property management, (h) human resources and payroll, (i) cash and treasury management and (j) IT general controls, covering the assessment of potential internal control deficiencies in relation to the Relevant Matters so as to identify the opportunities for internal control enhancement by the Company.

The IC Consultant has identified certain key findings and made certain recommendations in the First Review and completed the follow-up review with a review period from the date of implementation of remedial measures by the Group to 20 June 2023 (“**Follow-up Review**”). The IC Consultant has issued a report in respect of the findings of the IC Review (“**IC Review Report**”) on 20 June 2023 and concluded that the Group has implemented recommended remedial measures to rectify the deficiencies identified in the First Review. No material deficiencies in the Company’s internal controls and procedures were noted in the Follow-up Review.

The key findings of the internal control deficiencies in relation to, among others, the Relevant Matters and the corresponding details (including recommendations and implementation status) are summarised as follows:

Corporate level controls: policies and procedures and management of conflict of interests

Summary of key findings

The written policies and procedures established are not comprehensive and do not provide adequate guidelines for complying with the Listing Rules and relevant regulatory requirements including but not limited to, identifying, monitoring and disclosure of price-sensitive/ inside information and other material information, notifiable transactions, and other disclosable transactions; guidelines for directors’ dealings in Company’s securities, etc.. In addition, the Group has not established written policies and procedures relating to entering into material contracts and other legal commitments.

Meeting minutes of the Board have only been maintained in relation to material issues, decisions and approvals. Meeting minutes of the Board have not been maintained for the remaining meetings. Furthermore, there is no signature by the Board members on the meeting minutes at subsidiary level. The meeting minutes were emailed to the Board members for their comments after the meeting. If no comments were received from the Board members, the meeting minutes will be finalised.

The Group has established the Staff Handbook (員工手冊) and Human Resources Management Policy (人力資源管理制度) to outline the code of conduct for the employee, including prohibiting the employee from gaining personal interest under conflict of interest situation. However, there is no comprehensive written policy established for management of conflict of interest, such as procedures for mandatory regular declaration on conflict of interest by the directors, procedures for making declarations by the staff when conflict of interest arises, and follow-up procedures for identified conflict of interest, etc..

Recommendations and current implementation status

The Company should establish a comprehensive corporate governance policy and policies and procedures for complying with the Listing Rules and relevant regulatory requirements. In addition, the Group should establish policies and procedures relating to entering into material contracts and other legal commitments, including a clear approval authority in relation to entering into material contracts and other legal commitments specified in the policy. All the meetings held by the Board should be properly documented in minutes, and the meeting minutes should be formally confirmed by the Board members regardless of having comments or not.

The Group should establish a comprehensive written policy for management of conflict of interest, such as procedures for periodic declaration on conflict of interest by the directors, procedures for making declarations by the staff when conflict of interest arises, and follow-up procedures for identified conflict of interest, etc. For further strengthening the management of conflicts of interest, the Group may also consider adopting periodic declaration on conflict of interest by the senior management and other personnel involved in key decisions.

The measures recommended by the IC Consultant have been implemented. The Company has established and enhanced the corporate governance manual to include adequate guidelines for complying with the Listing Rules and relevant regulatory requirements including but not limited to, identifying, monitoring and disclosure of price-sensitive/ inside information and other material information, notifiable transactions, and other disclosable transactions; guidelines for directors' dealings in Company's securities, etc. and entering into material contracts and other legal commitments.

The written policy for management of conflict of interest has been adopted and implemented to include procedures for annual declaration on conflict of interest by the directors, senior management and key employees, procedures for making declarations by the staff when conflict of interest arises, and follow-up procedures for identified conflict of interest, etc. In addition, the Group has established templates for an Annual Declaration of Conflict of Interest Statement and a Conflict of Interest Declaration Form for "annual declarants" (i.e. Board members, senior management and key employees as defined in the Conflict of Interest Policy) and employees to declare their interests in writing in the event of a conflict of interest respectively.

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

Summary of key findings

There was management fee received from school canteens operated by third party contractors. Most of the major decisions relating to the agreements governing the operation of the canteens were made by a then director of a subsidiary of the Company. No written policy has been established for the agreement management process. In addition, no segregation of duties was noted in the processes of preparing and approving the agreements. No documentation in relation to legal review on the terms and condition of the agreement has been maintained. There was no agreement approval record maintained. There was no written procedure and policy to guide the pricing of canteen management fees. It was noted that only the supplementary agreements stated that the receivable management fee was calculated based on a percentage of turnover generated from the school canteen, but the original agreements did not specify the exact percentage. Key information including contact information of the third party contractors, contract signing date was not included in the agreements. The calculation of the receivable management fee was based on the list of canteen's turnover which was provided by the finance staff of the third party contractors. No verification procedure has been performed on the revenue generated from the canteen to ensure the completeness and accuracy of the data used for the calculation of the receivable management fee.

Additional deficiencies revealed by the Investigation Report

The Cooperation Agreements were signed by various staff of the Group on behalf of the contractors. According to the Investigation Report, Catering Manager claimed that the Canteen Contractors had issued various authorisation letters ("**Authorisation Letters**") to authorise the respective staff of the Group ("**Authorised Staff**") to execute the Cooperation Agreements and any supplemental cooperation agreements on their behalf. However, the Authorisation Letters were in fact issued by the contractors after the execution of the Cooperation Agreements and were backdated to various dates before the execution date shown on the Cooperation Agreements. Furthermore, the Authorised Staff signed the Cooperation Agreements and the Supplemental Cooperation Agreements using the respective Canteen Contractors' names rather than their own. In addition, the Investigation Report also found that the following agreements were also executed under the same arrangement, however, the Catering Manager did not explain whether any authorisation letters were issued by the Canteen Contractors:

- a. the cooperation agreements entered into between the Catering Company and the Canteen Contractors for the financial year ended 31 August 2018; and
- b. the canteen subcontracting operation agreements entered into between the Canteen Contractors and the schools for the period of five years from 1 September 2020 to 31 August 2025.

The IC Consultant also noted that there is no written policy to guide the authorization and sign-off by the staff on behalf of the contractors or vendors.

The Investigation Report also noted that the management of the Group had decided to reduce the management fees for the financial year ended 31 August 2022 and the financial year ending 31 August 2023. However, the Company has not signed a revised agreement or retain any written documentation to support the revised fee and only informed the relevant parties of such reduction by telephone (Such deficiency has been rectified. Please refer to the section headed “*Recommendations and current implementation status*” below for details. In the Follow-up Review, it was noted that the latest management fee has been agreed by both parties in writing).

Recommendations and current implementation status

The Company should establish a comprehensive agreement management process, and strictly execute the agreement management process in accordance with the established process. A written policy should be established for the agreement management process and pricing procedures of canteen management fees. Verification procedure on the turnover generated from the canteen should be established and performed to ensure the completeness and accuracy of the receivable management fee. The verification procedure and result should be documented and reviewed by the management.

The measures recommended by the IC Consultant have been implemented. The Company has established the Agreement Management Manual to regulate the contract management procedures, which includes the requirement to examine the contracting capacity of the counterparty, the contract drafting process, the contract approval process and the contract retention and filing management.

The Agreement Management Manual stipulates that the personnel handling the contract should complete the contract approval process in the OA system in accordance with the Company’s contract approval process. In the Follow-up Review, the IC Consultant obtained a template of contract signing process approval form in the OA system and confirmed that contract signing requires the approval of the relevant departments or personnel to ensure the segregation of duties in the contract preparation and approval process.

In addition, the Company has established the Management Fee Pricing Policy to include the charging standards of management fees. In the Follow-up Review, the IC Consultant also obtained the latest Cooperation Agreements signed between the catering company and the contractors for the academic year 2021/22 and 2022/23 and related approval records, confirming that the latest management fee has been determined according to the charging standards stated in the Management Fee Pricing Policy and agreed by both parties in writing.

In addition, the Company has established a “Catering Management Income Recognition Policy and Reconciliation Process” to regulate the monthly reconciliation process between the catering company and the contractor for the recognition of catering management fee revenue, as follows:

1. the contractor sends the signed and confirmed monthly turnover statement of the canteen to the catering company’s accountant via email at the beginning of each month;
2. the accountant of the catering company, based on the monthly turnover statement provided by the contractor, performs a step-by-step reconciliation as follows:
 - i) reconciliation of Charter Meal Scheme’s turnover: through the OA process, the schools with Charter Meal Scheme declare the amount of charter meal fees for the previous month at the beginning of each month, and the Catering Company Accountant reconciles the charter meal fees reported by each school with the contractor’s statement;
 - ii) check whether the monthly turnover of the canteen in the OneCard system is consistent with the contractor’s statement through the OneCard system query;
3. after verification, the management fee will be accrued and a summary table will be prepared and signed by the preparer and the reviewer as one of the original attachments to the accounting voucher. If there is any error, it will be checked again with the canteen contractor until both parties confirm that it is correct.
4. the catering company’s accountant sends monthly bills by email to each contractor, and the contractor pays the management fee to the catering company accordingly.

In the Follow-up Review, the IC Consultant obtained a reconciliation sample of the catering management income for the Dalian Maple Leaf Canteen and Wuhan Maple Leaf Canteen for April 2023 and confirmed that the Company has followed the above reconciliation process to verify the canteen turnover to ensure that the management fee receivable is complete and accurate.

In addition, in relation to the deficiencies revealed by the Investigation Report, it is noted that employees should be generally prohibited to sign contracts on behalf of the contractors/vendors to avoid contract invalid and criminal offense. The Company should seek legal advice when necessary and establish a written policy to provide guidance to the employees. Written policies must include the procedures for staff members to authorize and sign on behalf of contractors or suppliers and the matters needing attention, specifying that employees should obtain formal authorization from contractors before they sign contracts on behalf of contractors, and they should sign contracts in their own names. In case that the management fee is subsequently revised, formal statement should be issued to the contractors to confirm the changes and signed by both parties.

The measures recommended by the IC Consultant have been implemented. The Company has established the “Agreement Management Policy”, which stipulates that authorized employees should obtain a power of attorney issued by the person who has the right to sign the document before they sign the contract on behalf of the contractor, and they should sign the contract in their own name. Such power of attorney should also be reviewed by the Legal Department before contract signing and should be properly retained afterward. In the Follow-up Review, the IC Consultant obtained the latest Cooperation Agreements signed between the catering company and the contractors for the academic year 2021/22 and 2022/23 and related approval records, confirming that the latest management fee has been agreed by both parties in writing.

Relevant Matter 2: Royalty income from the Affected Schools for the Characteristic Intellectual Property Use Rights amounted to RMB23 million for the Period

Summary of key findings

There was no written approval record unanimously agreed by the Company’s chairman or senior management before signing the “Copyright Transfer Contract”(《作品著作权轉讓合同》) with Tech Global Investment Ltd, a wholly-owned subsidiary of the Company regarding the transfer of certain intellectual property rights to it and let it collect fees for the use of such intellectual property rights from the other subsidiaries of the Company. There was also no written approval record for the execution of “Characteristic Intellectual Property Use Right Authorisation Contract” by 24 subsidiaries of the Company. In addition, when implementing the Group’s decision of no further transaction with the affected subsidiaries, the finance director mistakenly assumed that Tech Global Investment Ltd would continue to charge 24 subsidiaries of the Company after the intellectual property transfer procedures completed. This misunderstanding demonstrated that the single staff lacked familiarity with the latest regulation and its impact on the Group’s business.

Recommendations and current implementation status

The Company should establish a formal contract approval procedure, specifying the authority for contract approval, and the specifications for signing the contract (such as the use of seals and the signing of the date), and maintain the contract approval record properly. The contract approval procedure should be approved by the management and then circulated among the employees to enhance the internal controls over the daily operation. Furthermore, to ensure that the Group shall comply with the requirements of the government policy, it is recommended that the Group should actively monitor business compliance by identifying any change of the government policy, provide training on changes of the government policy, especially to the management staff, and respond to the changes of the government policy.

The measures recommended by the IC Consultant have been implemented. Written policies and procedures for copyright management and approval of Intellectual Property Use Right Authorisation Contracts have been adopted and implemented. The Company has revised the Copyright Management Policy to clarify that the transfer of copyright is subject to the signing of the Copyright Transfer Contract. The specific matters are handled by the Intellectual Property Office, and the transfer must be approved by chief financial officer (“CFO”). In addition, the Company has also established the “Approval Procedures for Intellectual Property Use Right Authorisation Contract of Maple Leaf Education Group”, which includes requirement of the contract drafting for the authorization of Intellectual Property Use Right Authorisation Contract, the determination of fees, the signing of contracts and the contract execution. In the Follow-up Review, the IC Consultant obtained a copy of the Company’s newly established template of the Intellectual Property Rights Contract Approval Form at the Group level and the template of Intellectual Property Rights Contract Approval Form at the campus level, and confirmed that the Company has added the approval process of Characteristic Intellectual Property Use Right Authorisation Contract to the Group’s OA system, and will follow the prescribed approval process to approve and sign contracts in the future.

The intellectual property director has been assigned to monitor and identify changes of the government policies, rules and regulations and ensure that the Group is in compliance with the relevant policies, rules and regulations. If there are substantial changes to the government policies, the Group will engage external consultants to provide trainings and guidance to relevant staff. Trainings have been provided to the management of the Group in relation to the Implementation Regulations. For “Regulations on the Implementation of the Non-state Education Promotion Law of the People’s Republic of China (2021 Revision)”, the trainings that have been carried out include issuing “Guidance Manual on Running Schools in Accordance with the Law” that includes the Regulations on the Implementation of the Non-state Education Promotion Law and relevant laws, regulations and policy requirements in the field of education and stipulating that the management should keep a copy of the manual as a guiding tool, so as to facilitate the management to safeguard interests in accordance with laws and regulations. As to the planned training on intellectual property rights, starting from 2023, the Intellectual Property Office plans to conduct trainings on intellectual property and legal matters for the management of different campuses, covering topics such as declaration and maintenance of intellectual property rights, and legal issues related to the implementation of the Regulations on the Implementation of the Non-state Education Promotion Law. In the Follow-up Review, the IC Consultant obtained the training records of the Intellectual Property Office for the Weifang and Jinan campuses in February 2023 and confirmed that the Company has conducted trainings on intellectual property and legal matters for the management of the different campuses, covering topics such as declaration and maintenance of intellectual property rights and legal issues related to the implementation of the Law on the Promotion of Private Education.

The Group will continue to provide training in relation to the Implementation Regulations to the management of different schools.

Relevant Matter 3: Acquisition of property at a consideration of RMB40 million during the Period

Summary of key findings

No documentation for the approval of acquisition of property was maintained and it was not submitted to the independent board committee, which consists only of independent non-executive directors who do not have a material interest in the transaction, for discussion and approval. In addition, the Company did not seek opinion from an independent financial adviser prior to acquisition to ensure the acquisition being in the Company's interest.

Recommendations and current implementation status

Connected transactions should be discussed and approved by the independent board committee, which consists only of independent non-executive directors who do not have a material interest in the transaction. Opinions from independent financial adviser should also be obtained and considered to ensure the transaction could meet the Company's interest. Such assessment and approval process should be documented and retained. In addition, the Company should consult its legal advisor to see whether further announcement and shareholders' approval are required in accordance with the Listing Rules.

The measures recommended by the IC Consultant have been implemented. The Company has established and enhanced the corporate governance manual including but not limited to the section regarding connected transaction and will comply with reporting, disclosure and independent shareholders' approval requirements in the Listing Rules. As the Group did not have any new connected transactions during the Follow-up Review period, thus no relevant process documents can be provided.

Relevant Matter 4: Amounts due from/to the Affected Schools (related parties)

Summary of key findings

The Company has established Related Party Transaction Management Policy (關聯方交易管理制度) to govern the related parties transactions. However, the Company did not maintain a list of related parties and related parties transactions for monitoring purpose. The Related Party Transaction Management Policy did not include the procedures in relation to establishing and maintaining a list of related parties and related parties transactions for monitoring purpose. In addition, although the Related Party Transaction Management Policy included the price setting principles and approval process of the related parties transaction, it did not include the contract approval process for the related parties transactions. Furthermore, there were borrowings, expenses paid on behalf and income receipt on behalf, etc., between the schools and subsidiaries with the Group. However, no documentation has been maintained in relation to the mutual agreement between the schools and subsidiaries as well as approval for these transactions.

Recommendations and current implementation status

The Company should update the Related Party Transaction Management Policy to include the procedures of establishing and maintaining a list of related parties and related parties transactions as well as the contract approval process for the related parties transactions. Apart from adopting the updated policy to establish and maintain a list of related parties and related parties transactions for monitoring purpose. The list of related parties and related parties transactions should also be reviewed by an independent personnel on a regular basis. In addition, documentation in relation to the mutual agreement between the schools and subsidiaries as well as approval for borrowings, expenses paid on behalf and income receipt on behalf, etc., between the schools and subsidiaries should be maintained.

The measures recommended by the IC Consultant have been implemented. The Related Party Transaction Management Policy has been updated to include the procedures of establishing and maintaining a list of related parties and related parties transactions as well as the contract approval process for the related parties transactions. In the Follow-up Review, the IC Consultant obtained an updated list of related parties and related parties transactions and confirmed that the list of related parties and the list of related transactions are maintained by the Company Secretary, which have been submitted to the Director of the Internal Audit Centre for review.

VIEWS OF THE IBC AND THE BOARD

Having considered the IC Review, the IC Review Report and the measures implemented by the Group, both the IBC and the Board are of the opinion that the measures recommended by IC Consultant in the IC Review Report have been implemented and are adequate to address the findings in the IC Review Report. Both the IBC and the Board were reasonably satisfied that no material deficiencies were noted in the Company's internal controls and procedures. The IBC has recommended the IC Consultant to assist the Company in implementing and improving the internal control systems and procedures of the Company as far as reasonably practicable to ensure that the Company has in place adequate internal controls and procedures to meet its obligations under the applicable rules and regulations and prevent recurrence of events similar to the Relevant Matters.

Having considered the IC Review Report and the remedial actions taken by the Group, and, in particular, that IC Consultant has performed the Follow-up Review on the enhanced internal control processes and is of the view that no material deficiencies were noted in the Company's internal controls and procedures, the Board believed that the Group has strengthened the key internal controls in the business process, and considered that the Company has in place adequate internal controls and procedures to meet obligations under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

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 since 9:00 a.m. on 3 May 2022 due to the delay in publication of the 2022 Interim Results and will remain suspended until the Company fulfils the Resumption Guidance imposed by the Stock Exchange on the Company as described in the announcement of the Company dated 30 May 2022.

The Company will publish further announcement(s) to inform the Shareholders and potential investors of its progress in complying with the Resumption Guidance as and when appropriate, as well as quarterly updates on its development pursuant to Rule 13.24A of the Listing Rules.

Shareholders of the Company and potential investors are advised 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, 4 July 2023

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; Dr. Kem Hussain as a non-executive director; and Mr. Peter Humphrey Owen, Mr. Alan Shaver, Ms. Wai Fong Wong and Mr. King Pak Lau as independent non-executive directors.

* *For identification purposes only*