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CHINA CHUNLAI EDUCATION GROUP CO., LTD.

中國春來教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1969)

**(1) FULFILMENT OF THE RESUMPTION GUIDANCE;
(2) RESUMPTION OF TRADING;
(3) KEY FINDINGS ON THE INVESTIGATION INTO THE ISSUES; AND
(4) RESULTS OF THE INTERNAL CONTROL REVIEW**

BACKGROUND

As disclosed in the announcement of the Company dated 2 December 2019, the Company required additional time in order to complete the audit work in respect of the 2019 Annual Results. The relevant audit issues are disclosed in the section headed “Audit Issues Identified by the Former Auditor and the Relevant Remedial Actions” below. As a result of the delay in publication of the 2019 Annual Results and pursuant to Rule 13.50 of the Listing Rules, the Company applied for a suspension of trading in its Shares on the Stock Exchange with effect from 9:00 a.m. on 2 December 2019.

FULFILMENT OF THE RESUMPTION GUIDANCE

On 23 March 2020, the Stock Exchange notified the Company of the following Resumption Guidance:

- (a) conduct an appropriate investigation into the Issues, announce the findings and take appropriate remedial actions;
- (b) to publish all outstanding financial results and address any audit modifications;
- (c) to demonstrate that the Company has put in place adequate internal control and procedures to comply with the Listing Rules; and
- (d) to inform the market of all material information of the Company.

The Board is pleased to announce that the Resumption Guidance has been fully fulfilled to the Stock Exchange’s satisfaction, details of which are set out below.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 2 December 2019. As the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 10 November 2020.

This announcement is made by the board (the **"Board"**) of directors (the **"Directors"**) of China Chunlai Education Group Co., Ltd. (中國春來教育集團有限公司) (the **"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 (the **"Listing Rules"**) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to (i) the announcements of the Company dated 2 December 2019 and 13 January 2020 in relation to, among others, the delay in publication of the announcement in relation to the annual results for the year ended 31 August 2019 (**"2019 Annual Results"**) and the despatch of the annual report for the year ended 31 August 2019 (**"2019 Annual Report"**), the suspension (the **"Suspension"**) of trading of the shares (the **"Shares"**) of the Company on The Stock Exchange of Hong Kong Limited (the **"Stock Exchange"**) with effect from 9:00 a.m. on 2 December 2019, and the change of auditors of the Company; (ii) the announcement of the Company dated 27 March 2020 in relation to the resumption guidance (the **"Resumption Guidance"**) issued by the Stock Exchange on 23 March 2020 (the **"Guidance Announcement"**); (iii) the announcement of the Company dated 9 April 2020 in relation to the quarterly update on the Suspension; (iv) the announcements of the Company dated 29 April 2020 and 3 May 2020 in relation to the publication of its unaudited annual results for the year ended 31 August 2019 and its unaudited interim results for the six months ended 29 February 2020; (v) the announcement of the Company dated 29 May 2020 in relation to the delay in despatch of the interim report of the Company for the six months ended 29 February 2020 (the **"2020 Interim Report"**); (vi) the announcement of the Company dated 9 July 2020 in relation to the quarterly update on the Suspension; (vii) the announcement of the Company dated 20 August 2020 in relation to the update on the 2019 Annual Results and the interim results for the six months ended 29 February 2020; (viii) the 2019 Annual Report and the 2020 Interim Report both published on the websites of the Stock Exchange and the Company on 26 August 2020; and (ix) the announcement of the Company dated 9 October 2020 in relation to the quarterly update on the Suspension. Capitalised terms used herein shall have the same meanings as those defined in the Guidance Announcement and the announcement of the Company published on 13 January 2020 unless defined herein or the context requires otherwise.

BACKGROUND AND FULFILMENT OF RESUMPTION GUIDANCE

As disclosed in the Guidance Announcement, the Resumption Guidance set out the following conditions for the resumption of trading in the Shares:

- (a) conduct an appropriate investigation into the Issues, announce the findings and take appropriate remedial actions;

- (b) to publish all outstanding financial results and address any audit modifications;
- (c) to demonstrate that the Company has put in place adequate internal control and procedures to comply with the Listing Rules; and
- (d) to inform the market of all material information of the Company.

The Board is pleased to announce that the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, details of which are set out below.

AUDIT ISSUES IDENTIFIED BY THE FORMER AUDITOR AND THE RELEVANT REMEDIAL ACTIONS

As disclosed in the announcement of the Company dated 13 January 2020, Deloitte Touche Tohmatsu ("**Deloitte**" or "**Former Auditor**") tendered its resignation (the "**Resignation Letter**") as the auditor of the Company with effect from 10 January 2020. In the Resignation Letter, Deloitte stated their concerns (the "**Issues**") relating to, among others (and further details of which are set out below), the commercial rationale of (i) an investment into the Debenture Investment (as defined below), (ii) certain expenditure for property, plant and equipment (the "**PPE Investment**") and (iii) the acquisition (the "**Tianping College Acquisition**") of the school sponsor interest of Tianping College of Suzhou University of Science and Technology (蘇州科技大學天平學院). For further details relating to the Tianping College Acquisition, please refer to the announcements of the Company dated 23 July 2019 and 20 August 2019. The Company notes the attention drawn by its current auditor, ZHONGHUI ANDA CPA Limited ("**Zhonghui Anda**") in note 3 to the consolidated financial statements of the Company for the year ended 31 August 2019 which mentions that the Group had net current liabilities of approximately RMB950,326,000 as at 31 August 2019 and the Company's shares have been suspended for trading since 2 December 2019, and that these conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Zhonghui Anda's audit opinion is not modified in respect of this matter and is not qualified or modified in any aspects. The Board is of the view that the Company has adequate funding, taking into account proceeds from its initial public offering, proceeds from debt or any new equity financings and cash generated from its operations, such that there are no events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

(i) Debenture Investment

The Former Auditor expressed concern regarding the commercial rationale for and validity of a US\$15 million investment into a 5-year senior unsecured fixed rate 2.8% bond (the "**Debenture**") issued by L.R. Capital Media & Entertainment Holdings Limited (the "**Issuer**") to Bo Shi Investment Company Limited (the "**Investment Manager**") (on behalf of the Company) in September 2018 (the "**Debenture Investment**"). The Board (at the time comprising Mr. Hon Junyu, Mr. Hon Chunlai and Ms. Jiang Shuqin) had resolved to appoint Investment Manager on 30 August 2018 as its investment manager, which invested in the Debenture on behalf of the Company.

In relation to the Former Auditor's remark that the yield on the Debenture Investment was less than the Company's cost of capital, the Company notes, among others, that at the time the Debenture Investment was made, the Company had no immediate use for the funds, and bank deposit interest rates in Hong Kong were at the time close to zero.

In relation to the Former Auditor's observation of certain inconsistent information relating to the Debenture Investment, the Company has received legal advice from law firms and senior counsel in Hong Kong, which opined and concluded that such matters do not violate any applicable laws and regulations, and that there are no circumstances which raises any concerns as to the legitimacy of the Debenture Investment. The modest size of the Debenture Investment – below the “discloseable” threshold prescribed under the Listing Rules – was a factor taken into account by the Board when considering the actions it took. Through negotiations with the Issuer, the Debenture has been redeemed in full, and the Company has received all the proceeds from such redemption (principal with interest) on 15 June 2020 and 29 June 2020.

The Board believes that it acted in good faith and that the Debenture Investment was as a matter of substance consistent with the stated objective of preserving cash pending the other uses of the proceeds from the initial public offering as stated in the Company's prospectus dated 31 August 2018 (the “**Prospectus**”).

(ii) PPE Investment

The Former Auditor expressed concern regarding the commercial rationale for the PPE Investment of approximately RMB600 million, given that this exceeded the amounts designated for such purposes in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

The Company respectfully notes that while this may have indeed been the case, the Company had multiple sources of cash to fund its PPE Investment: namely, the proceeds from its initial public offering, proceeds from bank loans, and cash from its operations. In other words, the amounts designated in the Prospectus only relate to the proceeds from the Company's initial public offering – but do not otherwise restrict the Company from spending cash from other sources towards those purposes.

Further, the PPE Investment was directly related to the Group's ordinary course of business as an operator of schools, as the PPE Investment was made for the construction of school facilities to meet certain benchmarks set by the applicable government authorities in the PRC.

While the Company's business strategies included expanding and improving its schools' infrastructure and facilities (reference is made to pages 102-103 of the Prospectus), the Company did not envision (at the time of Prospectus) that its investment in its schools' infrastructure and facilities would be as significant and in such short time horizon as the PPE Investment. The increase in investment in PPE was needed to accommodate the expected increase in student enrollment in light of the State Council of the PRC's work report published on March 2019 announcing favorable policies relating to the nationwide increase in enrollment of higher vocational education of 1 million students effective from September 2019. The Group also took into account the prescribed ratio of sq.m. area of teaching and administrative building to the number of students enrolled (the "**Prescribed Ratio**") which the Group's schools are subject to (reference is made to pages 151 to 153 of the Prospectus). As noted in the Prospectus, the Group's schools did not comply with the Prescribed Ratio; as such, additional investments in its schools' infrastructure was needed to ensure the Group could meet the relevant Prescribed Ratio set by the Ministry of Education in its qualification assessment of universities, compliance of which would allow the Group's schools to accommodate the latest expected increase in student enrollment. At the time of the Prospectus, it was not envisaged that there would be such a significant increase in student enrollment. As of the date of this announcement, the Company does not expect additional significant investments in its schools' infrastructure for the foreseeable future other than those related to Tianping College Acquisition (as noted below).

(iii) Tianping College Acquisition

The Former Auditor also expressed concern regarding the commercial rationale for the Tianping College Acquisition for a consideration of approximately RMB800,111,100, given that this exceeded the amounts designated for such purposes in the section headed "Future Plans and Use of Proceeds" in the Company's Prospectus. Further, pages 102-103 of the Prospectus set out the Group's business strategies at the time, which included accelerating the Group's expansion by acquiring and establishing additional schools. At the time of the Prospectus, the Group had no identified any specific acquisition targets. The Group only identified Tianping College as a potential acquisition on or around mid to late December 2018, which was several months after the date of the Prospectus.

As noted above, the Company had multiple sources of cash to fund its investments and expenditures. In other words, the amounts designated in the Prospectus only relate to the proceeds from the Company's initial public offering – but do not otherwise restrict the Company from spending cash from other sources towards those purposes.

Further, the commercial reasons for and benefits of the Tianping College Acquisition have been set out in the announcements of the Company dated 23 July 2019 and 20 August 2019. In particular, the Company disclosed in the announcement of the Company dated 23 July 2019 that the proposed Tianping College Acquisition was a transaction with independent third parties concluded pursuant to a publicly conducted competitive tender process.

As noted in the announcement of the Company dated 20 August 2019, the consideration for the Tianping College Acquisition was RMB800,111,100, of which the remaining balance of RMB160,022,220 is payable within 720 days of 19 August 2019. Subsequent capital investments relating to the Tianping College Acquisition include, among others, establishing a new campus for operating Tianping College (which include acquiring relevant land rights and construction of campus facilities) and setting up teaching facilities and equipment.

In light of the concerns raised by the Former Auditor, which resulted in delay by the Company in publishing its 2019 Annual Results, 2019 Annual Report, the interim results for the six months ended 29 February 2020 (“**2020 Interim Results**”) and 2020 Interim Report, the Board has taken the following remedial actions (among others), including to strengthen its internal controls and ensure that, ultimately such delay does not occur again:

1. As noted above, the Issuer has redeemed the Debenture Investment in full, and the Company has received all the proceeds from such redemption (principal with interest), and the Company has received legal advice from law firms and senior counsel in Hong Kong in relation to the Debenture Investment.
2. The Company has reviewed and implemented the enhanced measures recommended by Mapleton CPA & Co. (“**Mapleton**” or “**Internal Control Adviser**”), including enhanced communication with the auditor of the Company, strict adherence to the Company’s existing internal control policies and an appointment of a valuer in relation to the PPE Investment – further details of which are set out below.
3. In connection with the recommendations from Mapleton (further details of which are set out below), going forward, the Company will focus on: (i) ensuring robust and frequent communication with its new auditor, Zhonghui Anda, so that any issues or queries will be handled as efficiently and as quickly as possible; and (ii) ensuring existing policies, such as the Group’s investment management manuals and capital expenditure policies, will be strictly followed by educating the relevant staff personnel of the Group to familiarize them with such policies by holding frequent training sessions in order to continuously monitor and enhance (if needed) the implementation of such policies.
4. The board has established an investment committee of the Company (the “**Investment Committee**”) – which will exercise the powers delegated by the Board to handle any matters or affairs related to the investment of the Company, and will also review the investment performance from time to time and advise the Board on how to use the Company’s funds to enhance the Group’s investment returns, retain the value of the Company’s funds and/or realize capital appreciation (where relevant, in accordance with the use of proceeds disclosure in the Prospectus).

KEY FINDINGS ON THE INVESTIGATION INTO THE ISSUES

Background to the Investigation

The audit committee of the Company (the “**Audit Committee**”), with the assistance of independent external advisers, have conducted an appropriate investigation (the “**Investigation**”) into the Issues, and have brought the Issues to the attention of the Company’s new auditor, Zhonghui Anda, to include specific procedures in its audit plan and work scope in relation to the 2019 Annual Results. In addition, the Audit Committee engaged Mapleton to conduct an internal control review of the Company’s key procedures and walk through documents relevant to the Issues, the findings of which is provided in more detail under the section headed “Results of the Internal Control Review” below in this announcement.

The primary concern of the Audit Committee is whether there have been any instances of fraud, including in particular whether there has been any misappropriation of the Group's assets or whether any of the Group's assets are unaccounted for, that need to be brought to the attention of the shareholders of the Company and the regulators. The Investigation has been carried out based on the principle of satisfying itself whether, on balance, there is sufficient basis that would lead it to believe that instances of fraud exist and warrant further forensic investigation.

The Investigation was conducted primarily under the direction of Mr. Lau Tsz Man, the chairman of the Audit Committee, who has more than 10 years of audit experience. The Audit Committee is satisfied that it has been provided with sufficient resources from the Company to engage external advisers to undertake the relevant review and analysis referred to in its Investigation.

Key findings of the Investigation

The Audit Committee and Zhonghui Anda are satisfied with the outcome of the specific procedures (which have been completed and concluded to the satisfaction of Zhonghui Anda) in relation to the 2019 Annual Results (details of which are set out below). The Audit Committee was given to understand that, in light of the specific procedures performed by Zhonghui Anda (as detailed below), Zhonghui Anda has reviewed, and is in agreement with, the views of the Audit Committee expressed in the final report prepared by the Audit Committee in relation to its Investigation (the **"Investigation Report"**).

The Audit Committee has concluded that the Issues identified by the Former Auditor were primarily attributable to communication issues with the Former Auditor and inadvertent administrative errors as opposed to deliberate concealment or fraud that give rise to any legitimate concerns or warrant a forensic investigation into the Issues, and that nothing has come to the attention of the Audit Committee that would lead them to conclude that there are legitimate concerns relating to the Issues that need to be brought to the attention of the shareholders of the Company other than as disclosed herein.

Debenture Investment

On account of the inconsistencies raised in Deloitte's Resignation Letter, the Audit Committee's primary concern with the Debenture Investment in its Investigation was the existence of the Debenture, and whether it was a fraudulent arrangement by which US\$15 million was extracted out of the Group's assets. The independent work done by the Audit Committee with regards to this issue included, among others, (i) obtained legal advice from senior counsel confirming the validity, legality and legitimacy of the Debenture Investment having reviewed all the relevant documents relating to the Debenture; (ii) engaged a law firm to independently perform procedures such as reviewing the relevant documents and information, attending the representative office of the Issuer of the Debenture; (iii) obtained legal opinions covering the due incorporation and valid existence of the Issuer of the Debenture and the Investment Manager; (iv) engaged an independent search agent to conduct a background search on the relevant parties and their respective relationships; (v) obtained a valuation report on the value of the Debenture; (vi) engaged Mapleton to perform a review of the controls and documentation relevant to the Issues; (vii) interviewed with, and obtained written confirmation from the Investment Manager with respect to its credentials and experience; and (viii) followed up closely with the management of the Company on the redemption progress of the Debenture, including ascertaining that the Company has received the redemption proceeds (principal and interest) in full and the Company has not suffered any economic loss as a direct result of the Debenture Investment.

The Audit Committee is of the view that the Directors (who were Mr. Hon Junyu, Mr. Hon Chunlai and Ms. Jiang Shuqin at the time) could have evaluated other investment managers and compared their terms and service offering before deciding to engage the Investment Manager and also conduct a thorough and comprehensive background search, and the Directors (who were Mr. Hon Junyu, Mr. Hon Chunlai and Ms. Jiang Shuqin at the time) could have conducted more diligence on the legal documentation relating to the Debenture Investment. Furthermore, the Audit Committee only learnt about the engagement of the Investment Manager and the Debenture Investment during its meeting with Deloitte for the preparation of the Group's interim results for the six months ended 28 February 2019, given that the Board at the time of the engagement of the Investment Manager only consisted of Mr. Hon Junyu, Mr. Hon Chunlai and Ms. Jiang Shuqin, since the appointment of the non-executive directors of the Board took effect from 31 August 2018. Consequently and with reference to the Internal Control Review (as defined and detailed below), the Audit Committee is of the view that the Group had not fully complied with the internal control policies of the Group at the time the Investment Manager was engaged. While opining on the Group's internal control is outside the scope of audit, Zhonghui Anda is in agreement with the Internal Control Review and the views of the Audit Committee. The Audit Committee takes the view that the full Board should be kept apprised of investment matters of the Company (generally as a whole, and irrespective of materiality) with more regularity and refers to the results of the Internal Control Review (as defined and provided in more detail below). The Audit Committee understands that the newly established Investment Committee will provide such updates to the full Board on a regular basis. The Audit Committee also considers that the Company should have ensured that proper documentation was in place to accurately reflected parties' intention (i.e. without ambiguity on key terms) to minimize disputes with the counterparties. Notwithstanding the foregoing, the Audit Committee does not consider that the decision of the Directors (at the time) to engage the Investment Manager was so unreasonable that it would lead it to conclude that the Directors breached their fiduciary duties towards the Company.

The Audit Committee has followed up closely with the management of the Company on the redemption process of the Debenture and has reviewed documentary evidence the Debenture Investment has been fully redeemed in June 2020. The Audit Committee is satisfied that the Company has received the redemption proceeds (together with the relevant interest) in relation to the Debenture Investment in June 2020, and the Company has suffered no loss.

PPE Investment and Tianping College Acquisition

The principal concern of the Audit Committee with respect to the PPE Investment and Tianping College Acquisition during its Investigation was whether they did in fact materialise and whether any affiliate of the Company inappropriately benefited from them. The Audit Committee referred to Mapleton's observations during its review of the controls and documentation relevant to the Issues that there was no observation of intended misconduct in relation to the PPE Investment and the Tianping College Acquisition. The Audit Committee also noted that the increase in PPE Investment was needed to accommodate the increase in student enrollment and to ensure the Group's schools were in compliance with the Ministry of Education's Prescribed Ratio. With regards to the Tianping College Acquisition, (i) Mr. Lau, on behalf of the Audit Committee, paid a physical visit to Tianping College in Suzhou in January 2020 with a view to ascertaining its existence and operations and the status of the Tianping College Acquisition and control of the Group; (ii) the Audit Committee noted a public bidding process (instead of a private negotiation) participated in by known market players and a state-owned vendor was involved; and (iii) the Audit Committee discussed with the Company's PRC legal advisers (a reputable PRC law firm that advised the Company on the Tianping College Acquisition) and obtained a legal opinion with respect to the Tianping College Acquisition. Given that the PPE Investment was made in the ordinary course of business of the Group with independent third parties and in compliance with the internal approval thresholds and procedures of the capital expenditure policies, Board level approval was not required. Thus, the Audit Committee was not involved in the decision-making process for the PPE Investment. The Audit Committee was informed during the decision-making process for the Tianping College Acquisition, and together with the Board approved the Tianping College Acquisition.

The Company has regularly kept the Board informed of its funding plans and on-going efforts to secure banking facilities with a view to satisfying the Group's capital needs, particularly in view of its net current liabilities position. The Audit Committee has made due enquiries with the management regarding the Company's funding plan for the Tianping College Acquisition at the relevant time, and was satisfied that the management has adequately considered the Company's liquidity position, and has been making arrangement with commercial banks to obtain banking facilities. The Audit Committee is cognizant that there was no comprehensive cash-flow forecast prepared prior to the Tianping College Acquisition as it was not feasible or practicable to do so given that it was a competitive public tender and the availability of the target's information was limited at the relevant time; however, the Company had provided the Directors with financial, business, legal and industry analysis in order for the Directors to make an informed assessment based on what the Company could reasonably have known at the time. The Audit Committee also understands from the Company and Mapleton that the Company has duly complied with relevant approval processes provided under the capital expenditure policies.

The Audit Committee is of the view that, while high-level cash flow forecast and estimations were made available to the Directors during the decision making process of PPE Investment and the Tianping College Acquisition, the Audit Committee considers that a more detailed and robust cash flow analysis and funding plan (that is as comprehensive as the one prepared for the initial public offering of the Company) to be provided to the Directors on a regular basis, particularly when the Group is in a net current liabilities position and conducting material acquisitions, would give additional comfort and basis for evaluating decisions and monitoring the on-going concern of the Group. The Audit Committee understands that, as part of the enhancement of the Company's internal controls, the management of the Company (including in particular the chief financial officer of the Company from time to time) is mandated to provide detailed forecast and funding plans to the Directors from time to time.

Through site visits, review of tender documents, sampling analysis and interviews with relevant parties, the Audit Committee is satisfied that the PPE Investment and Tianping College Acquisition were *bona fide* transactions. Based on the specific procedures performed (as set out below), the Audit Committee also understands that Zhonghui Anda is satisfied with the commercial rationale of the PPE Investment and Tianping College Acquisition from an auditor's perspective. As a whole, the Audit Committee is satisfied that the specific procedures (as set out below) are sufficient and have satisfactorily addressed each of the Issues, to which Zhonghui Anda agrees.

Other enhanced measures adopted by the Group

The Audit Committee has discussed with Mapleton, Zhonghui Anda and the chief financial officer of the Company in relation to the internal control procedures of the Group. In particular, the Audit Committee welcomes the establishment of the Investment Committee to provide additional oversight over, and professional support to, the investment matters of the Group. The Audit Committee has reviewed the terms of reference of the Investment Committee and has confirmed with the Company that the Company will make available sufficient resources to the Investment Committee to perform its functions as intended. The Investment Committee currently comprises Mr. Hou Junyu (executive director of the Company), Mr. Lau Tsz Man (independent non-executive director and chairman of the audit committee of the Company) and Dr. Jin Xiaobin (independent non-executive director of the Company). As of the date of this announcement, the Investment Committee is also identifying suitable candidates with extensive experience in investment and finance to support the intended functions of the Investment Committee.

Specific procedures for audit plan and work scope in relation to the 2019 Annual Results

Zhonghui Anda has completed the specific procedures as discussed with the Audit Committee. Based on Zhonghui Anda's assessment, nothing has come to the attention of Zhonghui Anda that would lead it to cast doubts on concerns raised by Deloitte. Further, Zhonghui Anda does not consider that a Big Four forensic investigation regarding the Issues is necessarily primarily because Zhonghui Anda considers that the audit and specific procedures (as summarized below) were appropriate and sufficient for audit purposes of the Company's consolidated financial statements for the year ended 31 August 2019. The major assessment and conclusion of the Issues by Zhonghui Anda are summarised as follows:

The Debenture Investment

- Reviewed joint notes of advices and reports from legal counsel. Zhonghui Anda also interviewed the aforesaid counsels in charge to confirm the validity and legitimacy of the Debenture Investment.
- Interviewed the sole shareholder and director, Mr. He Wu, of BSI to evaluate his professionalism. No unprofessional conduct was noted.
- Obtained and reviewed the valuation report of the Debenture issued by an independent valuer, Roma Appraisals Limited. There was no significant fair loss on the Debenture. According to the 2019 Annual Report, the fair value loss on the Debenture Investment was approximately HK\$491,000.
- Obtained a redemption confirmation dated 27 March 2020 issued by the Issuer regarding the redemption of the Debenture and discussed the plan of redemption with the management of the Group. Zhonghui Anda is of the view that the redemption would clear all financial readers' doubt. The Debenture (with principal and interest) was fully redeemed on 15 June 2020 and 29 June 2020. Remittance advices were checked.

PPE Investment

- Compared the book value of the PPE Investment with the market value and made reference to a valuation report of the PPE Investment for three colleges of the Group, and concluded that there is no material variance between the book value and market value.
- Reviewed tender documents and interviewed the major contractors, and concluded that the Group had followed established tender procedures and no unprofessional behavior was noted.
- Obtained and reviewed the cash flow forecast before the decision of the PPE Investment which shows that the Group had adequate funds to execute the PPE Investment.
- Enquired with the management of the Company the commercial rationale with supporting documents, and was satisfied with the rationale of the PPE Investment.

Tianping College Acquisition

- Checked the consideration of similar colleges paid by other companies listed in Hong Kong and reviewed draft valuation report of the sponsor interest of Tianping College to be issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. It is concluded that the bidding price of RMB800,111,000 is reasonable.
- Interviewed the representative of vendor from Suzhou University of Science and Technology and performed site visit. Nothing has come to the attention of Zhonghui Anda that would lead it to suspect of fraud or ingenuousness about the acquisition.
- Reviewed cash flow forecast of sponsor interest of Tianping College, which shows that the Group had adequate funds to execute the Tianping College Acquisition and the commercial rationale can be justified in terms of financial aspect.

FINANCIAL RESULTS

The Company has published its unaudited annual financial results for the year ended 31 August 2019 on 29 April 2020, and its unaudited interim financial results for the six months ended 29 February 2020 on 29 April 2020 (supplemented by a supplemental announcement dated 3 May 2020).

An announcement regarding the update of the audited annual results of the Company for the year ended 31 August 2019 and the unaudited interim results for the six months ended 29 February 2020 has been published on 20 August 2020. Both the 2019 Annual Report and the 2020 Interim Report have been published on the websites of the Stock Exchange and the Company on 26 August 2020.

RESULTS OF THE INTERNAL CONTROL REVIEW

As part of the investigation of the Audit Committee, the Company and the Audit Committee engaged Mapleton to conduct an internal control review of the Company's key procedures and walk through documents relevant to the Issues (the "**Internal Control Review**").

Summary of results

Set out below is a summary of the deficiencies identified by Mapleton during the Internal Control Review, their recommendations and corresponding response of the Group:

No. Mapleton's Findings	Mapleton's Recommendations	The Company's response
1. Failure on compliance regarding publishing the 2019 Annual Results within the time period prescribed by the Listing Rules	The Group should liaise well with Zhonghui Anda with a focus on (i) timetable to complete the audit work and publish the financial results and (ii) audit issues that may be raised by Zhonghui Anda.	The Group has followed this recommendation and on 20 August 2020, published the 2019 Annual Results and 2020 Interim Results.
2. Certain precautionary measures in the Group's investment policy were not strictly followed with relation to the Debenture Investment, and certain paperwork inconsistencies were identified	The Group should strictly abide by all precautionary measures stipulated in its investment management policy, and rectify the paperwork inconsistencies with relation to the Debenture Investment.	The Group has fully redeemed the Debenture Investment, and will strictly abide by its investment management policy in the future. The Investment Committee was also established to provide additional oversight over, and professional support to, the investment matters of the Group.

No. Mapleton's Findings	Mapleton's Recommendations	The Company's response
3. Amount of funds for the PPE Investment and Tianping College Acquisition (at first glance) were not consistent with the disclosure in the Prospectus, and that Deloitte was not provided with a cash flow forecast and funding plan by the Company to validate the feasibility and commercial reasons of such capital expenditures	The Group should (i) communicate promptly with the auditor to resolve auditor's concerns over such capital expenditures, (ii) appoint a valuer regarding the PPE Investment, (iii) devise specific audit procedures to verify the increase in number of students from official register so as to substantiate the addition in PPE Investment, and (iv) provide a comprehensive cash flow forecast to its auditor.	The Group has followed this recommendation, and has (i) worked closely with Zhonghui Anda to resolve any queries in an efficient manner such that the 2019 Annual Results and the 2020 Interim Results were duly published, (ii) engaged a valuer with regards to the PPE Investment and (iii) provided a comprehensive cash flow analysis to Zhonghui Anda.

Mapleton has conducted a follow-up review, and the Group has implemented Mapleton's recommendations to remedy all major deficiencies identified by Mapleton. Mapleton has also conducted a general review of the internal control system of the Company, and noted that the change in the Company's board and senior management composition (in particular the appointment of a new chief executive officer and a non-executive Director), along with training sessions to directors, will decrease the possibility of management override. Save as set out herein, Mapleton confirms that the internal controls and procedures of the Company under review were in place and no other material non-compliance were found, and that Mapleton is of the view that the current internal control system of the Company is adequate and effective, and that going forward, in order to maintain a proper internal control environment, the Group is recommended to:

1. Ensure internal control system is strictly adhered in the future.
2. Regularly review key internal control points and conduct internal audits regularly.
3. Ensure the line of reporting for internal audit is to be ultimately addressed to Audit Committee. The current reporting line for internal audit is ultimately addressed to the Audit Committee. In addition, independent discussion with internal control team and external auditor without the presence of executive Directors and non-executive Directors should continue to be arranged.
4. Circulate reminders on the Group's internal control procedures to the staff of the Group on a regular basis to alert them and increase their awareness on the importance of observance of the internal control procedures.
5. Conduct regular training sessions for all directors, senior management and relevant personnel of the Group to ensure that necessary financial and internal control measures are properly and effectively implemented and observed.

Having considered the results of the Internal Control Review, the Board believes and confirms that the Group has implemented Mapleton's recommendations to remedy all major deficiencies identified by Mapleton and is of the view that the Company has put in place adequate internal control and procedures to comply with the Listing Rules to fulfil the resumption conditions as set out in the Guidance Announcement and to prevent similar non-compliance in the future.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 2 December 2019. As the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 10 November 2020.

By order of the Board
China Chunlai Education Group Co., Ltd.
Zhang Jie
Executive Director

Hong Kong, 9 November 2020

As at the date of this announcement, our executive Directors are Mr. Hou Junyu, Ms. Jiang Shuqin and Ms. Zhang Jie, our non-executive Directors are Mr. Hou Chunlai and Mr. Hao Xiaohui, and our independent non-executive Directors are Dr. Jin Xiaobin, Ms. Fok, Pui Ming Joanna and Mr. Lau, Tsz Man.