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## **SOUTH CHINA VOCATIONAL EDUCATION GROUP COMPANY LIMITED**

### **中國華南職業教育集團有限公司**

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

**(Stock Code: 6913)**

## **SUPPLEMENTAL ANNOUNCEMENT**

### **IN RELATION TO**

#### **(1) THE PROVISION OF FINANCIAL ASSISTANCE AND**

#### **(2) THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE PROVISION OF FINANCIAL ASSISTANCE**

Reference is made to the announcements of the Company dated 28 March 2023 in relation to the provision of financial assistance (the “**Announcements**”). Unless otherwise defined, all the capitalised terms used herein shall have the same meaning as defined in the Announcements.

The Board would like to provide the supplemental information in relation to the provision of financial assistance as follows.

#### **Reasons for entering into the Loan Agreements**

The Group is not primarily engaged in providing financial assistance, and the Loan Agreements (as defined below) were entered into as part of its treasury activities.

Motivated by optimizing the use of its cash on hand and cash generated from its operations, with the demand from the respective borrowers of the Loan Agreements and after having taken into account the interest rates and the risk profiles of such loans, the Company decided to advance the short-term loans under the Loan Agreements to generate interest income.

#### **Internal control procedures governing the entering into of the Loan Agreements**

The Company’s internal control procedures governing the entering into of the nine loan agreements from April to November 2022 with Guangzhou Haigemeina and Ms. Xie Jiehua (the “**Discloseable Loan Agreements**”), the two loan agreements in February 2022 with Mr. He Huishan and a loan agreement with Health Valley in September 2022 (collectively, the “**Connected Loan Agreements**”, together with the Discloseable Loan Agreements, the “**Loan Agreements**”, each a “**Loan Agreement**”) are summarized as follows:

- (i) after reviewing the report on each Loan Agreement (the “**Report**”) and the relevant draft Loan Agreement submitted by a staff member of the finance department of Lingnan Education, Lingnan Education’s chief financial officer (being Mr. Qiu Jun (“**Mr. Qiu**”)) assessed the credit risks of the respective loans and approved the relevant draft Loan Agreement;

- (ii) the Report, relevant draft Loan Agreement and credit risk assessment result were then submitted to Lingnan Education’s chief financial officer (being Mr. Qiu), vice president (being Mr. Huang Shipping) and chairman (being Mr. He Huishan (“**Mr. He**”)) for final review and approval at the subsidiary’s level;
- (iii) after the internal control procedure at the subsidiary’s level, the relevant Reports and documents were then submitted to the Company’s chief financial officer (being Mr. Qiu) by the finance department of Lingnan Education. Mr. Qiu should assess whether the Loan Agreements required further approval by the Directors and/or Shareholders, or consent from any third parties, pursuant to the Listing Rules, other laws and regulations and/or contracts from the Company’s level, taking into account the Group’s legal, regulatory and contractual obligations as a whole. As Mr. Qiu was preoccupied by other matters of the Group during the time when the Loan Agreements were entered into, he overlooked the relevant obligations of the Company under the Listing Rules in respect of the Loan Agreements in a timely manner. Mr. Qiu, not being aware of the Company’s obligations, approved the Loan Agreements and procured the sign-off by the vice president and the chairman; and
- (iv) after the reminder by the internal audit director of Lingnan Education in February 2023, Mr. Qiu revisited the Loan Agreements and determined that they required approval by the Board. The relevant Reports and documents were then submitted to the Board for consideration. On 13 March 2023, a meeting of the full Board was convened to discuss the Loan Agreements, and the Loan Agreements were ratified by the Board.

In accordance with the internal control procedure at the level of Lingnan Education, Mr. He, as the chairman of Lingnan Education, was required to approve the Connected Loan Agreements. However, in order to resolve his conflict of interest, each of the Connected Loan Agreements was also submitted to Lingnan Education’s chief financial officer (being Mr. Qiu) and vice president (Mr. Huang Shipping) for review and approval, and Mr. He had deferred to the decision of Mr. Huang Shipping in relation to the approval of the Connected Loan Agreements. In addition, as disclosed in the Company’s connected transaction announcement dated 28 March 2023, Mr. He, as he is materially interested in the Connected Loan Agreements and the transactions thereunder, and Ms. He Huifen (an executive Director and sister of Mr. He), as she is an associate of Mr. He, both abstained from voting on the relevant Board resolutions in respect of the Connected Loan Agreements and the transactions thereunder.

### **Credit assessment in respect of the Loan Agreements**

As the chief financial officer of Lingnan Education, Mr. Qiu conducted the respective credit assessments of the Loan Agreements and was satisfied with the credit profile of the loans. In his assessment, Mr. Qiu, took into account the fair interest rate and the short term of each Loan Agreement. In respect of the financial assistance to Guangzhou Haigemeina, Mr. Qiu also took into account the joint guarantee provided by Ms. Xie Jiehua, the ultimate controller of Guangzhou Haigemeina, and Guangdong Yinda, a company engaged in the business of providing guarantee services for small and medium-sized enterprises. In respect of the financial assistance to Mr. He and Health Valley, Mr. Qiu also took into account the good long-term business relationship between our Group and Health Valley, i.e. two property lease agreements were entered into between our Group and Health Valley for a term of three years ending 31 August 2023, and the rent under each property lease agreement (being more than RMB12 million per annum in total) has been paid by Health Valley on time.

## **Remedial actions**

### ***(1) Repayment of the Loan Agreements***

In respect of the non-compliance of Discloseable Loan Agreements with the requirements under Chapter 14 of the Listing Rules, the Board was of the view that it was in the interest of the Company to terminate such contractual relationship as soon as possible in order to alleviate any concerns that may arise from the regulators as well as the Shareholders and potential investors of the Company. Hence, as requested by the Group, Guangzhou Haigemeina agreed to early terminate the Discloseable Loan Agreements and repay the outstanding amounts thereunder.

In respect of the non-compliance of Connected Loan Agreements with Rule 14A.35 of the Listing Rules, once Mr. He has become aware of the same, he, on his own accord, settled and procured Health Valley to settle all outstanding loans advanced by the Group, which was also one of the measures resolved by the Board to rectify the non-compliance matters.

### ***(2) Implementation status of remedial actions***

As disclosed in the Announcements, the Company will implement some measure and procedures to avoid the occurrence of similar non-compliance with the Listing Rules in the future. The implementation status and/or timetable of each of the future remedial actions is set out below:

- (i) The Company plans to engage an independent professional institution with relevant qualification as its internal control consultant in June 2023, the detailed implementation timetable of which is set out below:
- The week of 1 June 2023: Company to engage an independent professional institution with relevant qualification as the internal control consultant (the “**IC Consultant**”) of the Company;
  - The week of 1 June 2023: IC Consultant to commence a thorough review of the Company’s internal control system;
  - The week of 30 June 2023: IC Consultant to complete the initial review of the Company’s internal control system and to make recommendations for improvements;
  - From 1 July 2023 to 31 July 2023: IC Consultant to inspect whether the Company has adopted the recommendations and remedial measures (if any) recommended by the IC Consultant; and
  - From 1 August 2023 to the week of 15 August 2023: IC Consultant to conduct a final review of the Company’s internal control system;

- (ii) The Company will, starting from the second quarter of 2023, quarterly arrange to (i) hold regular departmental meetings to regularly monitor connected transactions and notifiable transactions, (ii) strengthen the reporting system between departments and Directors, and (iii) provide more guidance materials and trainings on compliance matters to the Directors, senior management and the financial staff of the Group on a regular basis to increase their awareness and knowledge of the Listing Rules; and
- (iii) The Company will arrange for its legal advisors to provide appropriate training regarding discloseable transactions and connected transactions to its Directors and senior management by the end of May 2023.

### ***(3) Appointment of internal control director of the Company***

Taking into account the significant involvement of the Company's management in review and approval of the Loan Agreements and to ensure that the remedial actions will enable the Company to avoid future similar non-compliance, Mr. Deng Yuhao (the internal audit director of Lingnan Education) has been appointed as the internal control director of the Company and is responsible for the following matters: (a) to carry out internal audit on a regular or irregular basis and identify discloseable transactions and connected transactions, and (b) to assess the key steps of the Company's internal control procedures and review the design and implementation of the Company's internal control procedures on a regular or irregular basis. Mr. Deng Yuhao has been qualified as a Certified Internal Auditor granted by The Institute of Internal Auditors since November 2010.

### ***(4) Mr. He's remedial measures***

In respect of the non-compliances in relation to the Loan Agreements, Mr. He, as an executive Director and chairman of the Board, oversighted the applicable Listing Rules because he was unfamiliar with the requirements under the Listing Rules in relation to financial assistance and connected transactions. In light of the above, (i) Mr. He will devote time to keep himself abreast of the latest development of the Listing Rules and publications by the Stock Exchange in this regard from time to time, and to receive training on compliance related matters on a regular basis to increase his awareness and knowledge of the Listing Rules; and (ii) in the event that there are any connected transactions in the future, in particular with Mr. He or his associates, Mr. He will proactively notify the independent non-executive Directors and consult the Company's legal advisors for advice.

## **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022**

Reference is made to the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”). In the 2022 Annual Report, it was disclosed that the Board believes that there are no material internal control deficiencies that may affect the Shareholders and an effective and adequate risk management and internal control system is in place to safeguard the assets of the Group.

In light of the non-compliance with Listing Rules relating to the Loan Agreements, the Board would like to supplement the disclosure in the 2022 Annual Report as follows.

The Board is of the view that, while the internal control system of the Company itself was effective and adequate during the year ended 31 December 2022, there were certain delay and inconsistencies in the manner in which it was carried out, primarily due to changes in the relevant personnel of the Group including the chief financial officer of the Company during the first half of 2022, for which the relevant personnel had not devoted sufficient effort to ensure continuity. Nonetheless, the Group did not incur any loss as a result of these incidents and issues, which were subsequently identified by the Group internally and rectified. Accordingly, the Board believes the delay in the Company’s compliance with the Listing Rules’ requirements in respect of the Loan Agreements did not indicate a material internal control deficiency that may affect the Shareholders and that an effective and adequate risk management and internal control system is in place to safeguard the assets of the Group.

By Order of the Board  
**South China Vocational Education  
Group Company Limited**  
**He Huishan**  
*Chairman*

Hong Kong, May 23, 2023

*As at the date of this announcement, the executive directors of the Company are Mr. He Huishan, Ms. He Huifen and Mr. Lao Hansheng; and the independent non-executive directors of the Company are Mr. Luo Pan, Mr. Yeh Zhe-Wei and Mr. Ma Shuchao.*