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## **Dexin Services Group Limited**

### **德信服务集团有限公司**

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

**(Stock Code: 2215)**

## **SUPPLEMENTAL ANNOUNCEMENT TO ANNUAL REPORT 2022**

Reference is made to the annual report of Dexin Services Group Limited (the “**Company**”) for the year ended 31 December 2022 (the “**Annual Report 2022**”) published on 24 April 2023. Unless otherwise defined, terms used herein shall bear the same meanings as those defined in the Annual Report 2022.

The Company wishes to provide the following further information:

### **Reasons for and Benefits of the Loan**

In 2022, the local and global economies have been volatile, the number of newly completed flats in the PRC has shown a decreasing trend, the property development industry in the PRC has faced substantial uncertainties, and interest rates in the PRC have been decreasing. In this uncertain macroeconomic environment, the Group has been taking a prudent approach in respect of investment opportunities for its business expansion. As of 30 June 2022, the Group had cash and cash equivalents of approximately RMB826.6 million, which the Directors confirm to far exceed its immediate need for their use of cash. The Board considered that by entering into the Loan Agreement, the Group could produce extra income with its idle cash with potentially higher returns than other available options, such as bank deposits or wealth management products.

Hangzhou Ruiyang was a business partner of the Company, and an Independent Third Party. Hangzhou Ruiyang has approached the Group to request for financial support for their operations and have expressed its willingness with the Group to cooperate in certain commercial real estate projects. After the Board has evaluated the ability of Hangzhou Ruiyang to repay the loan, and also the availability of the Charged Assets and their value as reported by the Property Valuer, it concluded that the financial and credit risks of

Hangzhou Ruiyang to default in their loan repayment obligations were likely to be low and manageable. The Group may also be able to derive additional business cooperation opportunities with Hangzhou Ruiyang.

The Board also considered that the Loan is collateralised by the Charged Assets that had an appraised value of approximately RMB630 million as confirmed by the Property Valuer. Upon taking into account the Loan being secured by the Charged Assets, the Board considered that the interest rate of the Loan of 8% per annum was fair and reasonable and on normal commercial terms, which was consistent with market practice and favourable to the Group.

The Lender used the Company's unutilised Net Proceeds from 2021 to provide the Loan to the Borrower. The Company ensured that the Group had sufficient operating cash flow and that the value of the Charged Assets exceeded the outstanding principal amount of the Loan at least on a half year basis, and had the right under the Loan Agreement to request the Borrower to include additional assets as Charged Assets to ensure that the Group's funds were fully secured.

After taking into account (a) the Group's strong cash position, with cash and cash equivalents of approximately RMB826.6 million at 30 June 2022, as disclosed in the interim report of the Company for the six months ended 30 June 2022; (b) the Group had as a net current asset position of approximately RMB884 million as of 30 June 2022, as disclosed in the interim report of the Company for the six months ended 30 June 2022; (c) the expected financial position, financial performance and working capital of the Group for the next 12 months after provision of the Loan; (d) that the Loan is secured by the Charged Assets with an appraised market value of approximately RMB630 million; and (e) the measures taken by the Company to ensure its sufficiency of working capital, the Directors were of the view that the Company would have sufficient working capital for the next twelve months after provision of the Loan.

Having considered the above, the Board was of the view that the terms of the Loan Agreement were arrived at after arm's length negotiations among the Lender and the Borrower, on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

### **Business Strategies in Granting the Loan**

In granting the Loan, the Board believed that it could not only derive additional interest income to the Group, but also strengthen the business relationship between the Group and the Borrower, which in turn could bring more business resources to the Group.

The primary consideration relating to the granting of the loan was the interests gained from the provision of the Loan would be higher than holding idle cash as deposits in banks or other financial institutions. In addition, the Board also considered that the

Loan is collateralised by the Charged Assets that had an appraised value of approximately RMB630 million, which was nearly twice the principal amount under the Loan.

Besides, the Board believed with the provision of the Loan, goodwill could be established between the Group and the Borrower. The Borrower and Hangzhou Junde, an indirect wholly-owned subsidiary of the Company, entered into a procurement agreement on 10 May 2022 pursuant to which the Borrower would provide comfort home living product to the Group from May 2022 to May 2024. The Company believed that the Loan would solidify such business relationship between the Group and the Borrower. It is expected that with the previously existing cooperation together with the financial relationship between the Group and the Borrower, the Group would be able to identify more potential customers, and efficiently allocate and match resources to better serve its existing or new customers. After conducting the risk assessment on the Borrower, the Group is confident that the granting of the Loan is in line with the Group's business strategies to maximize shareholders value.

As at the date of this announcement, no material impairments or write-off of the loan receivables in relation to the Loan has been made.

### **Corporate Governance Report**

Reference is made to the corporate governance report (the “**Corporate Governance Report**”) contained in the Annual Report 2022. The Company wishes to provide the following further information:

Pursuant to code provision D.2.3 of Appendix 14 of the Listing Rules, the Board would like to clarify and supplement the following information in the Corporate Governance Report. The Company had certain non-compliance record of the Listing Rules requirements and had improved its internal control system accordingly. These incidents were:

- (1) the Company announced on 22 April 2022 that the Company's failure to comply with the reporting, announcement, circular and shareholders' approval requirements in respect of the major transaction regarding the provision of guarantee by Shanghai Xuquan Trading Co., Ltd. (上海栩全商貿有限公司), an indirect wholly-owned subsidiary of the Company, for certain loans borrowed by Hangzhou Ruiyang Supply Chain Management Co., Ltd. (杭州瑞揚供應鏈管理有限公司), a business partner and an independent third party of the Company, from a bank; and
- (2) the Company announced on 11 October 2022 that the Company's failure to make timely disclosure in respect of the provision of a series of loans granted by the Group to borrowers, who are independent third parties of the Company, constitute non-compliance of disclosure obligations under Rules 14.34 and 13.13 of the Listing Rules, and its obligations under Rule 3A.23(2) of the Listing Rules,

(collectively, the “**Incidents**”).

### **Remedial Measures**

After the Incidents, the Directors have carried out a series of remedial measures, including but not limited to:

- (i) the Company issued the announcements dated 22 April 2022 and 11 October 2022 disclosing the details of the major transaction and the provision of loan transactions, respectively, in accordance with the Listing Rules in order to keep all Shareholders informed;
- (ii) the Company issued the circular dated 16 September 2022 disclosing further details of the transactions in accordance with the relevant provisions of Chapter 14 of the Listing Rules in order to keep all Shareholders informed;
- (iii) entrusted the Audit Committee with the responsibility to review and modify the internal control system and financial reporting system and update the internal handbook of the Company with reference to the Listing Rules;
- (iv) arranged for the Company’s finance department to conduct a series of self-inspection actions to scrutinise whether the Company has any other similar incident;
- (v) seek legal advice and other professional advice from time to time to ensure proper disclosure in compliance with the requirements of the Listing Rules;
- (vi) arranged training sessions for the Board on the compliance requirements and practical application of, among others, the Listing Rules (in particular Chapter 14 and Chapter 14A of the Listing Rules) and corporate governance; and
- (vii) engaged an external independent internal control consultant (the “**Independent IC Consultant**”) to conduct an independent internal control review on the Company’s internal control system and to conduct follow-up reviews for the proposed remedial measures to prevent future occurrence of similar non-compliance incidents.

The Board and the Audit Committee are of the view that after the implementation of the above remedial measures, the risk management and internal control systems of the Company are generally effective.

## **Further Enhanced Internal Control Procedures**

During the Reporting Period, the Company has implemented further internal control enhancements for the policies and procedures to identify any potential future breaches of Chapters 13 and 14 of the Listing Rules:

***(i) Regular review of the policies and procedures for compliance with Chapters 13 and 14 of the Listing Rules***

The company secretary of the Company and CFO were responsible for reviewing the relevant policies and procedures for compliance with Chapters 13 and 14 of the Listing Rules pursuant to the latest update of the Listing Rules on an annual basis. The updated policies and procedures must be reviewed and approved by the Board, and circulated to the senior management team of each department of the Company.

***(ii) Formulating a responsibilities table in the policy and procedures for compliance with Chapter 13 (the “Chapter 13 policy”)***

The Company had specified and delegated senior management in the finance department, compliance department, and human resources and administration department of the Company to execute the procedures and internal control measures as required pursuant to the Chapter 13 policy. A responsibilities table was prepared accordingly and included in the Chapter 13 policy.

***(iii) Setting up a monetary threshold defining financially significant transactions***

With reference to the latest published financial statements, the CFO and company secretary of the Company would determine the monetary threshold for identifying any potential events with disclosure obligations pursuant to the Listing Rules (the “**Disclosure Events**”) on a half-year basis. The finance department, all senior management of each department of the Company and the Board would need to agree on the monetary threshold. Transactions not entered into in the ordinary and usual course of business with an amount exceeding the monetary threshold would be classified as Disclosure Events.

***(iv) Regular review of the contract registers by the CFO***

The CFO would review the contract registers, including but not limited to investment, loan and guarantee registers, on weekly basis to ensure that he/she has approved or reviewed the contracts to be entered into by the Company and determined which contracts constitute Disclosure Events by taking into account the monetary threshold. All identified Disclosure Events must be reported to the company secretary of the Company on a weekly basis.

***(v) Escalating any Disclosure Events to the CFO***

The senior management of each department of the Company would be responsible for assessing if there are any Disclosure Events before the contracts are being approved. Upon identifying any Disclosure Events, the senior management of each department of the Company must notify the CFO.

***(vi) Involving professional parties in handling Disclosure Events***

All Disclosure Events must be approved by the CFO. The CFO was required to notify the company secretary of the Company and seek advices from the compliance advisers or legal advisers of the Company to assess and confirm whether the transaction falls into one of the classifications pursuant to Chapters 13 and 14 of the Listing Rules. The assessment results obtained would be maintained by the CFO. After confirming with the company secretary, compliance advisers and/or legal advisers of the Company, all confirmed Disclosure Events must be further approved by the Board prior to any public announcement.

***(vii) Keeping relevant documentation for all potential and confirmed Disclosure Events by the CFO***

The CFO was responsible for maintaining all documentation regarding the identification and further handling of the potential and confirmed Disclosure Events, including but not limited to (i) records of communications with all professional parties; and (ii) approval records of all the relevant contracts.

***(viii) Further enhancing the treasury management policies***

Upon arranging any type of investment, loan, guarantee, any other form of financial assistance and deposit pledging, the finance department of the Company was required to escalate to the CFO immediately if the transaction sum exceeds the monetary threshold. The CFO was required to follow the enhanced policies and procedures as described above to assess if the proposed transaction is a Disclosure Event.

***(ix) Regular checking on the enhanced internal control measures***

Ensuring the enhanced internal control system is strictly adhered to, the Company was either appoint an independent internal control consultant or arrange an internal audit team to perform an annual internal control review of our internal control measures. The review result was addressed to the Audit Committee.

With regards to the above further enhanced internal control measures, the Company has updated the relevant policies and procedures internally which have been reviewed and approved by the Directors and became effective on 29 December 2022.

## **Follow up Measures**

In relation to the Incidents, the Independent IC Consultant issued several internal control review reports, including follow-up reviews on the remedial internal control measures, according to which (i) the Company had put in place the enhanced internal control procedures pursuant to recommendations provided by the Independent IC Consultant; and (ii) the Independent IC Consultant performed spot checks on documentations which recorded that regular reviews of the contract registers were performed by the CFO.

On 24 March 2023, the Audit Committee reviewed the internal review report issued by the Independent IC Consultant which included the annual internal control review assessing the Group's risk management and internal control systems for the year ended 31 December 2022. The Audit Committee held the view that the Company maintained appropriate and effective risk management and internal control systems. The Audit Committee also consulted and reported its satisfactory findings to the Board subsequently.

Since December 2022, training was also provided by the Company's legal advisers for certain Directors in relation to compliance requirements and practical application of, among others, the Listing Rules (in particular Chapter 14 and Chapter 14A of the Listing Rules) and corporate governance of listed companies.

## **Role of the Audit Committee**

The Audit Committee takes the lead to review and assess the risk management and internal control systems of the Group. The Audit Committee plays an important role in ensuring that the Incidents do not significantly impair the effectiveness of our risk management and internal control systems by performing the following procedures:

- (i) review the internal control review report by the Independent IC Consultant for the Incidents;
- (ii) coordinate with our management to implement the recommended improvements in our internal control system as provided in the internal control review report by the Independent IC Consultant; and
- (iii) ensure appropriate and effective implementation of the proposed remedial actions as provided for in the internal control review report by the Independent IC Consultant.

The Audit Committee will continue to monitor the implementation and the effectiveness of the internal control enhancements as required for the internal control weaknesses identified by the Independent IC Consultant.

## OPINIONS OF THE AUDIT COMMITTEE AND THE BOARD

As a result of the above review, the further enhanced remedial actions and the follow up measures that the Group has taken or to be taken, both the Audit Committee and the Board consider that the Company has in place effective risk management and internal control systems to enable the Company to meet its obligations under the Listing Rules.

The supplementary information provided in this announcement does not affect other information contained in the Annual Report 2022. Save as disclosed above, the contents of the Annual Report 2022 remain unchanged.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“Borrower” or “Hangzhou Ruiyang”	Hangzhou Ruiyang Supply Chain Management Co., Ltd.* (杭州瑞揚供應鏈管理有限公司), a business partner of the Company, and an Independent Third Party
“Charged Assets”	car parking spaces with an aggregated appraised value of approximately RMB630 million to be charged by the Borrower in favour of the Lender pursuant to the Loan Agreement as security for the Loan
“Global Offering”	the Hong Kong Public Offering and the International Offering as defined in the prospectus of the Company dated 29 June 2021
“Group”	the Company together with its subsidiaries from time to time
“Hangzhou Junde”	Hangzhou Junde Commercial Operations Management Co., Ltd. (杭州駿德商業運營管理有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a third party which is independent of and not connected with the Company and its connected persons and not otherwise a connected person of the Company



“Lender” or “Shanghai Xuquan”	Shanghai Xuquan Trading Co., Ltd.* (上海栩全商貿有限公司), an indirect wholly-owned subsidiary of the Company
“Loan”	the loan in the principal amount of up to RMB315 million to be advanced by the Lender to the Borrower pursuant to the Loan Agreement
“Loan Agreement”	the loan agreement dated 16 December 2022 entered into between the Lender and the Borrower in relation to the Loan
“Net Proceeds”	the net proceeds from the Global Offering (inclusive of the proceeds received from the partial exercise of the over-allotment option thereunder) which amounted to HK\$763.5 million in the aggregate
“Property Valuer”	AVISTA Valuation Advisory Limited, acting as the independent valuer providing appraisal services on the Charged Asset
“RMB”	Renminbi, the lawful currency of the PRC

\* *for identification purposes only*

By order of the Board  
**Dexin Services Group Limited**  
**Hu Yiping**  
*Chairman*

Hangzhou, the PRC, 3 August 2023

*As of the date of this announcement, the Board comprises Mr. Hu Yiping, Mr. Tang Junjie and Ms. Zheng Peng as executive Directors; and Dr. Wong Wing Kuen Albert, Mr. Rui Meng and Mr. Yang Xi as independent non-executive Directors.*