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KEY FINDINGS AND RESULTS OF INDEPENDENT INVESTIGATION AND INTERNAL CONTROL REVIEW

This announcement is made by Kangqiao Service Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.24A of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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).

References are made to the announcements of the Company dated March 31, 2023, April 18, 2023, April 25, 2023, May 31, 2023, June 30, 2023, July 28, 2023, August 31, 2023 and October 5, 2023 in relation to, inter alia, (i) suspension of trading; (ii) delay in publication of annual results for the year ended December 31, 2022 and delay in despatch of annual report; (iii) resumption guidance; (iv) quarterly update on status of resumption; (v) the annual results for the year ended December 31, 2022; and (vi) the interim results for the six months ended June 30, 2023 (the “**Announcements**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements unless otherwise specified.

As disclosed in the announcement of the Company dated May 31, 2023, the resumption conditions include, among others, that the Company must (i) conduct an appropriate independent investigation into the omission of the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee from the guarantee obligation list provided by the Company to the Auditor, assess their impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions; and (ii) conduct the independent Internal Control Review and demonstrate that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

This announcement sets out the key findings of the Independent Investigation and the Internal Control Review.

BACKGROUND

On March 30, 2023, the Auditor issued the Auditor’s Letter, which identified that the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee were omitted from the list of the Group’s guarantee obligations in favour of external parties provided by the Company to the Auditor.

THE INDEPENDENT INVESTIGATION

The Independent Committee, consisting of all the independent non-executive Directors, appointed Grant Thornton Advisory Services Limited (the “**Independent Investigator**”) to conduct the Independent Investigation. As at the date of this announcement, the Independent Investigator has issued the Independent Investigation Report to the Independent Committee. Details of the Independent Investigation Report are set out below:

Objectives of the Independent Investigation

The objectives of the Independent Investigation mainly included investigating into the following subject matters:-

- (i) understand the relevant background and circumstances leading to the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, and the reasons of the omission of disclosure to the Auditor regarding the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee;
- (ii) identify key personnel involved in the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, and to understand their roles therein;
- (iii) understand the relationship between the parties involved and the Group;
- (iv) review whether there are other potential similar undisclosed and/or unauthorized guarantee arrangements (the “**Other Possible Guarantees**”) during the period from July 16, 2021, being the date of listing of the Company, to December 31, 2022 existed within the Group’s other major subsidiaries; and
- (v) understand whether the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee were carried out and complied in accordance with relevant internal control procedures of the Group.

Major Investigation Procedures

The major investigation procedures conducted by the Independent Investigator on the issue of the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee included, but were not limited to, the following:

- (i) obtaining and reviewing relevant documents and correspondences relating to the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee (including but not limited to the guarantee contracts, the list of guarantees, internal investigation reports, the due diligence reports obtained by the Company for the purpose of the acquisition of Dingfeng Property that was completed in October 2021, and the approval records, accounting records and litigation documents relevant to the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee);
- (ii) conducting interviews with relevant personnel of the Group (including Directors, management and relevant employees) and relevant external parties to understand, among others, the background giving rise to the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, the approval procedures of the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, the segregation of duties and use of corporate seals;

- (iii) conducting independent background checks and company searches on the relevant key personnel and relevant parties in relation to the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, to understand the background of such personnel/parties, and their relationship with the Group, the Directors and/or the Shareholders;
- (iv) obtaining independent confirmation letters from the borrowers and lenders to verify, among others, the details of the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee;
- (v) reviewing the internal control policies and procedures related to the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee in relation to, among others, related party guarantees, contract/agreement approval procedures, and management of corporate seals; and
- (vi) conducting computer forensic procedures on key relevant personnel.

The major investigation procedures conducted by the Independent Investigator on the issue of the Other Possible Guarantees included, but were not limited to, the following:

- (i) obtaining and reviewing relevant documents, including corporate credit reports, relevant acquisition documents during the review period and the initial public offering of the Group in July 2021, and internal documents of the Group, to identify any potential unauthorized guarantee matters within the Group;
- (ii) conducting interviews with relevant personnel of the Group (including Directors, management and relevant employees) to inquire about any potential unauthorized guarantee matters within the Group;
- (iii) conducting independent background checks and independent company searches on selected Group companies to obtain detailed information about their background;
- (iv) obtaining independent confirmation letters from relevant entities (including third-party lenders and borrowers) to obtain details about relevant guarantees (if any);
- (v) reviewing the internal control policies and procedures in relation to, among others, related party guarantees, contract/agreement approval procedures, and management of corporate seals; and
- (vi) conducting computer forensic procedures on key relevant personnel.

During the performance of the above procedures, there were certain limitations encountered by the Independent Investigator. Please refer to the section headed “Limitations of the Independent Investigation” below in this announcement for details.

Key Findings of the Independent Investigation

Based on the major investigation procedures as set out above, the key findings of the Independent Investigation are as follows:

The Property Development Guarantee

(a) Background

The Auditor identified the Execution Ruling issued by the Zhengzhou Intermediate People's Court (鄭州市中級人民法院) against Henan Kangqiao Yueshenghuo, a wholly-owned subsidiary of the Company. The Company explained to the Auditor that the Execution Ruling was related to the Property Development Guarantee, which was provided by Henan Kangqiao Yueshenghuo in December 2021 as part of the financing arrangement of the Kangqiao Property Development Group in favour of China Huarong Asset Management Co., Ltd. Henan Branch (中國華融資產管理股份有限公司河南省分公司) ("**Huarong**"). The financing arrangement of the Kangqiao Property Development Group was for an amount of approximately RMB355 million.

Based on the information available, the Independent Investigator independently ascertained the circumstances surrounding the execution of the Property Development Guarantee, and identified the key personnel involved, the reasons for the omission of the Property Development Guarantee from the list of guarantees provided to the Auditor, and whether the Property Development Guarantee was carried out in accordance with the internal control procedures of the Group.

(b) Findings

Based on the major investigation procedures as set out above, the key findings of the Independent Investigation are as follows:

(i) Execution of the Property Development Guarantee

In or around late November to December 2021, Huarong requested for Henan Kangqiao Yueshenghuo to provide guarantee for relevant financing arrangement of the Kangqiao Property Development Group, in addition to the then existing secured assets, mortgages and guarantees, which includes the mortgage provided by Kangqiao Property Development Group's affiliates, and the personal guarantee from a non-executive Director, Mr. Song Gewei ("**Mr. Song**").

Thus, a finance personnel of the Kangqiao Property Development Group, approached Mr. Dai Wei ("**Mr. Dai**"), the legal representative (法定代表人) of Henan Kangqiao Yueshenghuo and an executive Director.

The finance personnel of the Kangqiao Property Development Group represented to Mr. Dai, among other things, that the value of the secured assets under the loan was sufficient to cover the loan. Besides, upon request by Mr. Dai, a company from the Kangqiao Property Development Group would provide a counter-guarantee to offset Henan Kangqiao Yueshenghuo's liability under the guarantee.

In December 2021, in his capacity as the legal representative of Henan Kangqiao Yueshenghuo, Mr. Dai signed the sole shareholder's resolution of Henan Kangqiao Yueshenghuo and the Property Development Guarantee agreement respectively, the drafts of which were both prepared by Huarong.

The internal approval record shows that the vice chief administrative officer of the Group approved the use of Henan Kangqiao Yueshenghuo's company seal to complete the execution of the Property Development Guarantee. No relevant record of the use of Henan Kangqiao Yueshenghuo's company seal was made in the relevant seal use register.

On December 20, 2021, a company from the Kangqiao Property Development Group, i.e. Beijing Tongdao Shenghe Investment Co., Ltd. (北京同道聖合投資有限公司) (currently known as Beijing Kangqiao Tongdao Shenghe Consulting Group Co., Ltd. (北京康橋同道聖合諮詢集團有限責任公司)) (“**Beijing Tongdao**”), provided a counter-guarantee in favour of Henan Kangqiao Yueshenghuo under the Property Development Guarantee.

Separately, Mr. Song was informed by staff members of the Kangqiao Property Development Group that Henan Kangqiao Yueshenghuo had been asked to provide a guarantee in favour of Huarong. As Mr. Song takes on a non-executive role of the Company and does not participate in the day-to-day operations or decision-making processes of the Company, he did not take part in the approval process of the Property Development Guarantee.

Save for Mr. Dai and Mr. Song, the rest of the Board was not notified of the provision of the Property Development Guarantee.

(ii) Enforcement actions by Huarong

From November 2022 to March 2023, Huarong carried out a series of enforcement actions against Kangqiao Property Development Group for the outstanding amount under the financing arrangement. As guarantors to the financing arrangement, Henan Kangqiao Yueshenghuo and Mr. Song were named as parties to the proceedings and/or settlement agreement. Details of the enforcement actions are as follows:

- On November 2, 2022, Huarong commenced proceedings in the Zhengzhou Intermediate People’s Court against, among other parties, Henan Kangqiao Yueshenghuo, for, inter alia, the outstanding amount of approximately RMB355 million under the financing arrangement with Kangqiao Property Development Group, as well as the liquidated damages for breach of the financing terms and compensation for the extension of the grace period for repayment.
- On December 2, 2022, Huarong entered into a settlement agreement (調解協議) (the “**Settlement Agreement**”) with, among other parties, Henan Kangqiao Yueshenghuo. Under the Settlement Agreement, the relevant parties reached a mediation consensus on the settlement of the financing arrangement, including the addition of Kaifeng Kangxiang Real Estate Development Co., Ltd. (開封康祥房地產開發有限公司), a company under the Kangqiao Property Development Group, as a joint debtor. Having received authorization from a staff member of the risk management department, a staff member of the legal department of the Group had signed on the Settlement Agreement on behalf of Henan Kangqiao Yueshenghuo and applied the company seal of Henan Kangqiao Yueshenghuo. No relevant record of the use of Henan Kangqiao Yueshenghuo’s company seal was made in the relevant seal use register.
- On January 16, 2023, the Zhengzhou Intermediate People’s Court issued a civil mediation agreement (民事調解書) (case number: (2022) 豫01 民初 1155 號) (the “**Civil Mediation Agreement**”), confirming the salient terms of the Settlement Agreement.
- On March 7, 2023, Huarong submitted its request for enforcement actions to the Zhengzhou Intermediate People’s Court as provided for under the Civil Mediation Agreement.

- On March 22, 2023, the Zhengzhou Intermediate People’s Court issued the Execution Ruling, ordering the due performance of the Civil Mediation Agreement by the parties to the Civil Mediation Agreement.

At the relevant time, the Group did not have an internal policy specifically addressing the proper reporting process for the provision of guarantee and the execution of related documents. The enforcement actions were not filed or recorded on the litigation list of the Group, as the staff member of the legal department of the Group who handled the case considered that the Group was not a primary responsible party under the enforcement actions and therefore the relevant risks were relatively remote.

(iii) Discharge of the Property Development Guarantee

On March 31, 2023, Huarong issued a statement of discharge of guarantee (the “**Discharge**”) to Henan Kangqiao Yueshenghuo, thereby voluntarily discharging all obligations of Henan Kangqiao Yueshenghuo under the Property Development Guarantee and the Civil Mediation Agreement, and relinquishing any right to the enforcement actions Huarong may have under the said agreements.

The Group has been advised by its PRC legal advisor that the Discharge is valid and enforceable under the PRC law, and that the Group has been released from the Property Development Guarantee.

(c) Internal control issues identified

The Independent Investigator found that there was room for improvements in certain internal controls measures over the process of entering into the Property Development Guarantee, which included:

1. there were no written procedures or policy to manage guarantee contracts;
2. there was insufficient internal control over the management of the subsidiaries of the Group. Subsidiaries of the Group do not know about the upward reporting procedures for providing guarantees, and thus failed to report to the management of the Company or record in relevant registers;
3. the Group failed to update and maintain a complete list of litigation;
4. there were deficiencies in the Group’s internal record-keeping and upward reporting processes, which likely contributed to the Company’s failure to identify the Property Management Guarantee in the internal documents and records. While the Group’s internal policy explained the relevant review and approval procedures before formal execution of contracts, there were no specific policies or procedures for the provision and execution of guarantees. Further, the Property Management Guarantee and the Settlement Agreement, upon which Henan Kangqiao Yueshenghuo’s company seal was applied, were not recorded in the Group’s register of contracts;
5. there was inadequate management of the use of company seals. While the Group’s internal policy for the management of company seals explained the approval process for the use of company seals on guarantee contracts, employees were not familiar with the policy; and

6. the execution of the Property Development Guarantee was not logged onto the Group’s centralized electronic system, which prevented it from being identified in a timely manner by the Company’s management.

The Dingfeng-Yuanxuan Guarantee

(a) Background

The Company acquired 51% of the equity interest in Dingfeng Property from Yuanxuan in October 2021 (the “**Dingfeng Acquisition**”). During the audit process for the 2022 Annual Results, the Auditor noted the bank account status of Dingfeng Property was frozen as of December 31, 2022. The Company explained that there was a freezing order related to a default of the repayment obligations of a related party of Yuanxuan over which Dingfeng Property had provided the Dingfeng-Yuanxuan Guarantee, and the upper limit of the freezing order was approximately RMB186 million. The Dingfeng-Yuanxuan Guarantee existed prior to the Dingfeng Acquisition.

Based on the information available, the Independent Investigator independently ascertained the circumstances surrounding the execution of the Dingfeng-Yuanxuan Guarantee, and identified the key personnel involved, the reasons for the omission of the Dingfeng-Yuanxuan Guarantee from the list of guarantees provided to the Auditor, and whether the Dingfeng-Yuanxuan Guarantee was carried out in accordance with the internal control procedures of the Group.

(b) Findings

Based on the major investigation procedures as set out above, the key findings of the Independent Investigation are as follows:

(i) Acquisition of 51% of the equity interest in Dingfeng Property without knowledge of the Dingfeng-Yuanxuan Guarantee

During the process of the Dingfeng Acquisition, the Group conducted financial and legal due diligence exercises on Dingfeng Property, and the due diligence process consists of reviewing relevant financial information and making due enquiries with the management of Dingfeng Property regarding guarantees and loans, however, the management of Dingfeng Property did not disclose the Dingfeng-Yuanxuan Guarantee. Staff members of the Group also reviewed, inter alia, the corporate credit report of Dingfeng Property issued by the Credit Reference Center, The People’s Bank of China (中國人民銀行徵信中心), which did not disclose the Dingfeng-Yuanxuan Guarantee.

With no knowledge of the existence of the Dingfeng-Yuanxuan Guarantee, on September 2, 2021, Kangqiao Yueshenghuo Service Group Co., Ltd. (康橋悅生活服務集團有限公司) (“**Kangqiao Yueshenghuo**”) entered into a cooperation agreement (the “**Cooperation Agreement**”) with Yuanxuan, Dingfeng Property, Henan Menhu Real Estate Co., Ltd. (河南門戶置業有限公司) and Henan Jiatian Industrial Group Co., Ltd. (河南佳田實業集團有限公司), regarding the sale and purchase of 51% of the equity interest in Dingfeng Property. The Cooperation Agreement warranted that there were no undisclosed guarantees provided in favour of external parties, when in fact the list of guarantees appended to the Cooperation Agreement failed to disclose the Dingfeng-Yuanxuan Guarantee.

(ii) Circumstances leading to the discovery of the Dingfeng-Yuanxuan Guarantee

In August 2022, the Group’s finance department discovered that a bank account of Dingfeng Property was frozen. Upon making enquiries, it was discovered that Dingfeng Property had entered into the Dingfeng-Yuanxuan Guarantee, which consisted of two written agreements: (i)

a guarantee agreement dated October 29, 2020 and (ii) an undated guarantee agreement in 2017. Under the Dingfeng-Yuanxuan Guarantee, Dingfeng Property, being one of the guarantors, guarantees the obligation and the performance of the redemption obligation of Henan Ruipeng Biotechnology Co., Ltd. (河南瑞鵬生物科技股份有限公司) (“**Henan Ruipeng**”) and Guan Xiaoyan (關曉彥), which arose from certain investment agreements between Henan Ruipeng, Guan Xiaoyan (關曉彥) and Tibet Yuteng Enterprise Management Co., Ltd. (西藏裕騰企業管理有限公司) (“**Tibet Yuteng**”), among other parties (the “**Investment Agreements**”). It was also revealed that upon the application by Tibet Yuteng, the Zhengzhou Intermediate People’s Court issued a freezing order (執行裁定書) on August 8, 2022 against the relevant guarantors including Dingfeng Property, freezing each guarantor’s bank deposit for up to RMB186,224,556. It was advised by the Company that, as of December 31, 2022, the total amount frozen in Dingfeng Property’s bank accounts under the said freezing order was approximately RMB4.8 million.

On January 9, 2023, Tibet Yuteng reached a settlement agreement with certain parties who were subject to guarantee obligations under the Investment Agreements. It should be noted that Dingfeng Property was not named as a party to the settlement agreement, nor did it participate in the settlement negotiation process. The Group has been advised by its PRC legal advisor that the Dingfeng-Yuanxuan Guarantee was not discharged by the settlement agreement, as Dingfeng Property was not a party to the settlement agreement.

On January 16, 2023, Tibet Yuteng voluntarily withdrew its claim against, among other parties, Dingfeng Property. The Company advised that in January 2023, the freezing order was discharged.

Similar to the Property Development Guarantee, since there was no internal policy specifically addressing the proper reporting process for the provision of guarantee and that the relevant staff considered that the Group was not a primary responsible party under the claim and therefore the relevant risks were relative remote, no written record or filing was made or reported within the Group.

(c) Internal control issues identified

The Independent Investigator found that there was room for improvements in certain internal controls measures over the process of entering into and reporting of the Dingfeng-Yuanxuan Guarantee, which included:

1. the Group failed to update and maintain a complete list of litigation;
2. prior to the Dingfeng Acquisition, Dingfeng Property had internal control deficiencies; and
3. prior to the Dingfeng Acquisition, Dingfeng Property’s management of company seals was inadequate.

Other Possible Guarantees

(a) Background

As requested by the Auditor, in addition to conducting independent investigations on the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, the Independent Investigator reviewed whether other potential similar undisclosed and/or unauthorized guarantee arrangements existed in the major subsidiaries of the Group.

(b) Findings

Other than the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, the Independent Investigator identified certain existing guarantees during the period from the Company's listing date (i.e. July 16, 2021) to December 31, 2022. The Company confirmed that they were aware of the guarantee arrangements identified by the Independent Investigator.

The Independent Investigator conducted relevant investigation procedures and concluded that, there is no indication of any undisclosed and/or unauthorized guarantee arrangements given by the 17 subsidiaries selected under its scope of investigation.

(c) Internal control issues identified

The Independent Investigator found that there was room for improvements in certain internal controls measures, which included:

1. the Group failed to update and maintain a complete list of guarantee arrangements within the Group;
2. there were deficiencies in the Group's internal record keeping and management of relevant registers;
3. there was inadequate management of the use of company seals; and
4. specific details were not sufficiently stated in the relevant approval forms.

Limitations of the Independent Investigation

During the course of the Independent Investigation, the Independent Investigator encountered certain limitations such as the inability to obtain certain documentations/information on the Property Development Guarantee and the Dingfeng-Yuanxuan Guarantee, the inability to conduct interviews or obtain confirmation letters with certain personnel/parties, the inability to conduct computer forensic procedures on the computers and/or telephone of certain personnel and the inability to obtain further details of certain documentations identified, therefore the authenticity of the background of the Guarantees could not be analyzed further.

As the Independent Investigator was not empowered with compulsory force/right of investigation, the Independent Investigation largely relied on the voluntary cooperation of the Company as well as other relevant third parties. The Independent Investigator was not in a position to fully verify the representations made by the interviewees or ensure that the investigation findings were without errors. The Independent Investigator also cannot verify the authenticity of the all the documents provided.

The Board's View

The Board has reviewed the content and the findings of the Independent Investigation Report. The Board is of the view that the Independent Investigator has investigated into the matters raised by the Auditor, and adequately addressed the concerns raised by the Auditor to the extent that is practicable. The Board noted certain internal control weaknesses of the Group identified in the Independent Investigation Report and had implemented various internal control and corporate governance improvement measures along with the adoption of the suggestions and recommendations provided by the IC Consultant as further set out below in this announcement.

Independent Committee’s Assessment

The Independent Committee has reviewed the Independent Investigation Report, and considered that the Independent Investigation has adequately addressed the issues raised by the Auditor. The Independent Committee noted the internal control weaknesses which the Group should address and remedial actions taken by the Company as stated above and as further elaborated in the section headed “Internal Control Review” below in this announcement.

INTERNAL CONTROL REVIEW

The Independent Committee has appointed SHINEWING Risk Services Limited, the IC Consultant, to conduct the independent Internal Control Review on (i) the Group’s management of related party transactions; (ii) the provision of guarantee; and (iii) a follow-up review of the remedial measures implemented by the Group to address the internal control issues raised in the Independent Investigation Report.

The IC Consultant has completed the independent Internal Control Review, the follow-up review on the remedial measures adopted by the Company, and has issued a report of its findings (the “**Internal Control Report**”).

The IC Consultant found deficiencies on internal control for the period from January 1, 2023 to May 31, 2023 (the “**Review Period**”). The IC Consultant has conducted follow-up review on the deficiencies identified by the IC Consultant and the Independent Investigator. No further material deficiencies were identified during the period from June 1, 2023 to July 25, 2023 (the “**Follow-up Review Period**”).

According to the Internal Control Report and the Independent Investigation Report, the IC Consultant identified the following key internal control weaknesses:

Key Findings

Absence of internal policies regarding provision of guarantees

Remedial actions taken by the Company

The Company has established internal policies and procedures for guarantee management and has also established internal policies and procedures for investment management. The new policies and procedures were approved by management and circulated to relevant staff.

Under the new internal policies, prior to providing guarantees, the relevant finance staff shall first collect supporting documents on the guaranteed party, evaluate the financial status, assets quality and business prospects of the guaranteed party, and perform risk assessment on the guarantee arrangement. The Group’s compliance investment centre, compliance department, and the finance management centre shall review the documents. All relevant information shall then be submitted to the Board for final approval via the online system.

During the guarantee’s validity period, relevant staff shall monitor the operations and financial status of the guaranteed party on a monthly basis, and report potential losses arising from the guarantee to the finance department and the Board. The compliance investment centre shall conduct annual inspections of the implementation of guarantee policy, including reviewing the analysis done prior to entering into the guarantee agreement, the procedures for approving the guarantee, the completeness of documentation and records, and the ongoing monitoring performed by relevant staff.

During the Follow-up Review Period, the Group did not have any matters requiring the provision of guarantees.

Absence of internal policies regarding provision of security

According to the newly established internal policies, when a Group company has to provide a mortgage, the relevant department shall first conduct analysis, including evaluating the financial status of the primary obligor and the quality of other secured assets, and performing risk assessment on the mortgage arrangement. The Group's compliance investment centre, compliance department, and the finance management centre shall review the documents. All relevant information shall then be submitted to the Board for final approval via the online system.

During the Review Period and the Follow-up Review Period, the Group did not have any mortgage arrangements.

Established protocols did not specify procedures for reporting the changes to the list of related parties

Management has updated the relevant protocols to include procedures for reporting the changes to the list of related parties; such protocols have been approved by the Company and circulated to responsible employees for implementation.

During the Follow-up Review Period, there had been no changes to the list of related parties and their contact persons.

Established protocols did not specify the procedures for the analysis behind each provision of external guarantee

Management has updated the relevant protocols to include procedures for the analysis behind each provision of external guarantee.

During the Follow-up Review Period, there had been no new guarantee provided to any parties.

Insufficient management and internal controls over subsidiary companies within the Group

According to the newly established internal policies, subsidiaries are required to compile and submit guarantee application documents to the Group's headquarters and upload the documents to the online system for the Board's review and approval.

During the Review Period and the Follow-up Review Period, the Group did not have any matters requiring the provision of any guarantees.

Lack of contract management

The Group implemented the "Contract Management Guidelines" which cover departmental responsibilities, contract drafting and approval, review requirements, procedures to changes of terms and termination of contracts, dispute resolution, and archive management. Further and as stated above, the Group established a standardized management process for guaranteed contracts. Contract information shall be automatically updated and stored in the online system's contract ledger list after the online approval of designated management.

Contract approvals during the Review Period and Follow-up Review Period followed the aforementioned procedures, and contract terms and details were recorded in the online system.

Lack of seal management

The Group established a new policy for seal and licence management, which was approved by management through the online system, and shared with the Group's employees for reference. The guidelines cover seal types, engraving approval process, usage scope, application and approval procedures, stamping requirements, registration, custody, transfer procedures, and record-keeping.

Each subsidiary company has designated seal custodians for various seal types. Contract approvals matrix has been established in the online system. Application and details of approval of the use of seal are submitted and recorded in the online system, including responsible persons, contract amounts, contracting units, and types. Non-contract seal requests are also processed through the online system, with details such as usage reasons, seal types, and requesting departments recorded.

Contract approval process are not conducted through the online system

During the Review Period, all subsidiaries in the Group used the online system for daily work requests. Business contracts sampled by the IC Consultant during the Review Period and the Follow-up Review Period have been approved in the online system in accordance with the provisions of the relevant internal policies.

Failure to properly manage the completeness of the litigation list

The Group has developed a litigation checklist that includes the court hearing dates, reviewing authorities, plaintiff and defendant names, case descriptions, latest case status, and verdicts. All litigation-related information is handled by the legal department, and the checklist is updated and maintained by legal department officers. The checklist is reviewed by the staff who is responsible for the litigation within the legal department. From the IC Consultant's sampled review of litigation documents, the IC Consultant confirmed that the details of the relevant litigation cases are included in the litigation checklist.

The legal department also regularly reports the status of litigation cases at management meetings to the Group's chief executive officer and the Board. The IC Consultant's review of the samples of the meeting minutes during the Review Period and the Follow-up Review Period confirmed that the legal department regularly reported on the status of litigation cases to the Group's chief executive officer and the Board.

Inadequate internal control over guarantees prior to the Dingfeng Acquisition.

During the Follow-up Review Period, the Group updated the internal policy on acquisition of targets. The new provisions in the measures include requirements for due diligence teams to conduct investigations on guarantee matters related to acquisition targets of subsidiary companies. This also includes understanding the approval process and seal management, identifying risks associated with the acquired company's operations (such as guarantees and mortgages) and proposing solutions, assessing financial conditions, and evaluating internal management systems of the acquisition targets. The findings are to be reported to the investment committee for review.

During the Review Period and the Follow-up Review Period, the Group did not acquire any subsidiary companies.

Follow-Up Procedures and Results of the Internal Control Review

The Company has taken all of the advices and recommendations from the independent Internal Control Review completed by the IC Consultant and adopted, revised or enhanced, as the case maybe, the relevant policies and procedures of the Group, and the IC Consultant has performed a Follow-up Review after the Group has taken the relevant remedial actions. Having reviewed the results of the Internal Control Review, the IC Consultant has not identified any material internal control weakness after the Follow-up Review. The IC Consultant is of the view that nothing has come to their attention that would reasonably cause them to doubt on the adequacy and effectiveness of the enhanced internal control system of the Group, which has been included

in the IC Consultant's scope of review, according to the samples and documents received from the Group.

The Board and the Independent Committee's Assessment

Having considered the Internal Control Report and the remedial actions taken by the Company, both the Independent Committee and the Board are of the view that the remedial measures implemented by the Company are adequate and sufficient to address the key findings of the Internal Control Review. The Company will continue to monitor the effectiveness of the Group's internal control systems and procedures so as to meet its obligations under the Listing Rules and ensure reasonable and adequate internal control policies and procedures are in place and commensurate with its business operations.

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on April 3, 2023 and will continue to be suspended, pending the fulfilment of the Resumption Guidance and the grant of approval of the Stock Exchange for the resumption of trading of the Shares.

Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

By order of the Board
Kangqiao Service Group Limited
SONG Gewei
Chairman

Hong Kong, October 16, 2023

As at the date of this announcement, the Board comprises Mr. SONG Gewei as the chairman and non-executive Director; Mr. DAI Wei, Mr. KANG Weiguo and Ms. WANG Na as the executive Directors; and Dr. LI Haitao, Dr. FAN Yun and Mr. WONG Yun Pun as the independent non-executive Directors.