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Evergrande Property Services Group Limited

恒大物業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6666)

INSIDE INFORMATION KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

This announcement is made by the Company pursuant to Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Listing Rules.

I. Introduction

References are made to the announcements of the Company dated 21 March 2022, 29 March 2022 and 22 July 2022 regarding the enforcement of the Group's deposits pledge of approximately RMB 13.4 billion by the relevant Banks. The Independent Investigation Committee has completed the Independent Investigation. The key findings of the Independent Investigation are summarised in this announcement.

II. Key findings of the Independent Investigation

A. Overview

During the period between 28 December 2020 and 2 August 2021, six subsidiaries of the Company (namely Jinbi Property, Jinbi Hengying, Jinbi Huafu, Evergrande Hengkang, Jinbi Shijia and Jinbi Hengkang) provided the Pledges to Banks 1 to 8 for the purposes of obtaining financing for Third Parties 1 to 36 (as guaranteed parties). The relevant funds (after deduction of fees) were transferred to Evergrande Group through certain guaranteed parties and various Intermediary Companies.

The guarantee period of the Pledges was due. As the conditions for enforcing the Pledges were triggered, Banks 2, 3, 5, 6, 7 & 8 deducted/transferred the deposit certificates in the total amount of approximately RMB 13.4 billion.

B. The Pledges

The Pledges are categorised into three tranches as follows:

B1. The first tranche of deposit certificate pledge guarantees - RMB 2 billion

The first tranche involves the provision of two rounds of deposit certificate pledge guarantees.

1. First round of RMB 2 billion deposit certificate pledge guarantee

On 28 December 2020, Jinbi Property provided a deposit certificate pledge guarantee to Bank 1 with a RMB 2 billion time deposit certificate for the financing of Third Party 1, enabling Third Party 1 to obtain a RMB 2 billion bank's acceptance drafts. Out of the funds obtained, RMB 1,982.75 million was transferred to Shenzhen Hengda Material via Intermediary Company 1.

2. Release of the first round of RMB 2 billion deposit certificate pledge guarantee

During the period between 23 March 2021 and 26 March 2021, Guiyang Property, Guangzhou Xinyuan and Guizhou Guangjuyuan transferred a total amount of RMB 1,982.75 million to Shenzhen Hengda Material.

During the period between 24 March 2021 and 26 March 2021, Shenzhen Hengda Material transferred RMB 1,982.75 million to Third Party 1. Third Party 1 then repaid the bank's acceptance drafts to Bank 1 and the first round of RMB 2 billion deposit certificate pledge guarantee was thereby released.

3. Second round of RMB 2 billion deposit certificate pledge guarantee

During the period between 24 March 2021 and 29 March 2021, Jinbi Property provided a deposit certificate pledge guarantee to Bank 2 with a RMB 2 billion fixed deposit certificate for the financing of Third Party 2, enabling Third Party 2 to obtain a RMB 1.9554 billion bank loan. Third Party 2 then transferred the funds to Intermediary Company 2, which then transferred the same to Intermediary Company 3. Intermediary Company 3 later transferred the funds to Guizhou Guangjuyuan by way of capital increase and provision of interest-free loan.

Due to the default by Third Party 2 under the loan agreement, Bank 2 deducted the approximately RMB 2 billion deposit certificate of Jinbi Property during the period between 25 September 2021 and 26 September 2021.

4. Personnel involved in the RMB 2 billion deposit certificate pledge guarantees

The proposal, actual handling and other related matters in respect of the first tranche of deposit certificate pledge guarantees were all approved and handled by relevant personnel of the Evergrande Group.

The set-up of bank account and the deposit of funds in respect of the first tranche of deposit certificate pledge guarantees were approved by certain management personnel of the Group, mainly including An Lihong, the then executive Director and deputy financial general manager of the Company, Hu Liang, the then executive Director and general manager of the Company, and Zhao Changlong, the then executive Director and chairman of the Company. Pan Darong, the then executive director and chief financial officer of China Evergrande, also took part in the approval process. The deposit of the second round of RMB 2 billion funds was approved by Xia Haijun, the then executive director and president of China Evergrande.

B2. The second tranche of deposit certificate pledge guarantee — RMB 2.7 billion

1. RMB 2.7 billion deposit certificate pledge guarantee

During the period between 17 June 2021 and 21 June 2021, Hengda Real Estate and/or its subsidiaries borrowed RMB 2.7 billion from Third Party 3. The funds were used to repay Evergrande Group's accounts payable to the Group.

After receiving such RMB 2.7 billion, Jinbi Property transferred RMB 1.7 billion and RMB 1 billion to Evergrande Hengkang and Jinbi Hengying, respectively.

After obtaining the funds, Evergrande Hengkang and Jinbi Hengying provided a total amount of RMB 2.7 billion deposit certificate pledge guarantee to Bank 3 for the financing of Third Parties 3 to 8, enabling the guaranteed parties or payees and their relevant designated persons to obtain bank's acceptance drafts from Bank 3. The funds were transferred to Third Party 3 via Intermediary Companies 4 to 6 and Third Party 9.

Due to the default by Third Parties 3 to 8 under the loan agreement, the RMB 2.7 billion deposit certificate provided by Jinbi Hengying and Evergrande Hengkang was deducted by Bank 3 between 17 September 2021 and 21 September 2021.

2. Personnel involved in the RMB 2.7 billion deposit certificate pledge guarantee

The proposal, actual handling and other related matters in respect of the second tranche of deposit certificate pledge guarantee were all approved and handled by relevant personnel of Evergrande Group.

The set-up of bank account and the deposit of funds in respect of the second tranche of deposit certificate pledge guarantee were approved by certain management personnel of the Group, mainly including An Lihong, the then executive Director and deputy financial general manager of the Company, Hu Liang, the then executive Director and general manager of the Company, Zhao Changlong, the then vice chairman, executive Director and general manager of the Company, and Zhen Litao, the then executive Director and chairman of the Company.

B3. The third tranche of deposit certificate pledge guarantees - RMB 8.7 billion

The third tranche involves two rounds of deposit certificate pledge guarantees.

1. First round of RMB 8 billion deposit certificate pledge guarantee

During the period between 5 January 2021 and 15 January 2021, Jinbi Shijia, Jinbi Hengying, Evergrande Hengkang and Jinbi Huafu provided pledge guarantee to Bank 3 and Bank 4 for the financing of 16 companies, being Third Parties 9 to 24, with deposit certificates in the total amount of RMB 8 billion.

After obtaining the funds, Third Parties 9 to 24 transferred the funds to 27 companies, comprising Third Parties 9, 11, 12, 18, 19, 21 to 23 and Intermediary Companies 7, 13, 14, 19 to 34, which then transferred the funds to Zhaoqing Hengjin.

2. Release of first round of RMB 8 billion deposit certificate pledge guarantee

During the period between 5 July 2021 and 15 July 2021, the RMB 8 billion deposit certificates pledge guarantee provided by Jinbi Shijia, Jinbi Hengying, Evergrande Hengkang and Jinbi Huafu to Bank 3 and Bank 4 for the financing of Third Parties 9 to 24 was due. Several third parties provided funds to the guaranteed parties of the first round of RMB 8 billion deposit certificate pledge guarantee for their repayment of the debt owed to Bank 3 and Bank 4, thereby releasing the aforesaid RMB 8 billion deposit certificate pledge guarantee.

3. RMB 8.7 billion loan

During the period between 5 July 2021 and 15 July 2021, Jinbi Property provided a loan of RMB 8.7 billion to Zhaoqing Hengjin. After obtaining the funds, Zhaoqing Hengjin transferred RMB 700 million to Hengda Real Estate Group Yuet Tung Co., Ltd. (恒大地產集團粵東有限公司)(a subsidiary of Hengda Real Estate) and the remaining RMB 8 billion to Third Parties 3, 11, 12 and 14 and Intermediary Companies 35 and 36.

During the period between 20 July 2021 and 30 July 2021, Third Party 3 and Intermediary Companies 37 to 46 transferred RMB 8.7 billion to Zhaoqing Hengjin. After obtaining the funds, Zhaoqing Hengjin repaid RMB 8.7 billion in arrears to Jinbi Property.

4. Second round of RMB 8.7 billion deposit certificate pledge guarantee

During the period between 19 July 2021 and 2 August 2021, Jinbi Huafu, Jinbi Shijia, Jinbi Hengying, Evergrande Hengkang and Jinbi Hengkang provided pledge guarantee

to Banks 5 to 8 with a total amount of RMB 8.7 billion deposit certificate for the financing of Third Parties 3, 8, 22 to 36 (17 companies in total), enabling Third Parties 3, 8, 22 to 36 or their respective designated payees to obtain banks' acceptance drafts in the amount of RMB 8.7 billion.

During the period between 22 October 2021 and 9 December 2021, the second round of RMB 8.7 billion deposit certificate pledge guarantee was due. Banks 5 to 8 deducted/transferred approximately RMB 8.7 billion deposit certificates pledge guarantees provided by Jinbi Huafu, Jinbi Shijia, Jinbi Hengying, Evergrande Hengkang and Jinbi Hengkang due to the default by the guaranteed parties.

5. *Personnel involved in the pledge of RMB 8.7 billion deposit certificates pledge guarantees*

The proposal, actual handling and other related matters in respect of the third tranche of deposit certificate pledge guarantees were all approved and handled by relevant personnel of Evergrande Group.

The set-up of bank account and the deposit of funds in respect of the third tranche of deposit certificate pledge guarantees were approved by certain management personnel of the Group, mainly including An Lihong, the then executive Director and deputy financial general manager of the Company, Hu Liang, the executive Director and general manager of the Company (and was the executive Director and executive deputy general manager of the Company at the relevant time), and Zhen Litao, the then executive Director and chairman of the Company. Pan Darong, the then executive director and chief financial officer of China Evergrande, also took part in the approval process.

C. *Background and reasons for the Pledges*

According to interviews, in mid-to-late December 2020, Evergrande Group proposed a special financing project to meet its capital needs. The detailed plan was for the subsidiaries to provide pledges as guarantee for external third parties' application for bank financing, and the funds obtained by such third parties would then be transferred to Evergrande Group by way of loans and/or investments.

D. *Internal Control*

The incident of the Pledges reflects the deficiencies in the Group's internal control system, which mainly include:

- (1) In terms of approval of external pledge guarantee, the "Approval Form for Submission of Documents and Use of Seal for the Financing Work of Evergrande Real Estate Group" and requests for instructions involved in this incident were all initiated by Evergrande Group, and were all approved by the relevant personnel of Evergrande

Group at the relevant times. It was not shown that any relevant personnel of the Group at the relevant times signed or approved the relevant approval forms and requests. Besides, no relevant financing plan approval documents in respect of the second round of RMB 2.7 billion deposit certificate pledge guarantee were found. The aforesaid situations did not comply with the relevant requirements on approval authority and approval process under the “Management Measures of Property Services Group”, and show that there was the issue of non-compliance of the relevant deposit certificate pledge guarantee proposals and contracts with the internal control management system, and that the relevant internal approval was ultimately made by Evergrande Group instead of the Group;

- (2) In terms of seal and file management, in accordance with the relevant requirements under the “Management Measures of Property Services Group” and the “Seal Management System of Evergrande Group” applicable at the time of approval, the administrative official seal of the Company and relevant valid seals (except the financial seal), licences, contracts, tender, settlement data and other files within the scope of archiving were kept by the supervision center and regional supervision office of Evergrande Group. The subsidiaries of the Group involved in the Pledges did not establish an independent seal and file management system, and its company-level chops were under Evergrande Group’s de facto control. The Group, as a party to the Pledges, failed to keep properly the relevant agreements and documentation, indicating that there are certain internal control deficiencies in the seal and file management of the subsidiaries of the Group;
- (3) According to the relevant requirements under the “Management Measures of Property Services Group”, any contract with an amount exceeding RMB 3 million (save for supply contracts of public utilities such as water, electricity, gas, heating, etc.) should be reviewed by the contract management center of Evergrande Group and then submitted to the chairman of the Group for approval. The subsidiaries of the Group involved in the Pledges relied on the contract management center of Evergrande Group to review material contracts and failed to adopt necessary risk assessment and preventive measures, including the failure to conduct necessary due diligence on the guaranteed parties and the failure to require the guaranteed parties or the actual user of the funds to provide appropriate or sufficient counter-guarantees, which shows that the Group lacks the necessary independent risk assessment procedures or systems; and
- (4) None of the deposit certificate pledge guarantees involved in the Pledges was created based on the actual business needs of the Group itself.

Based on the findings of the investigation, the Independent Investigation Committee recommended that the domestic subsidiaries of the Group adopt the following measures in relation to their corporate governance and compliance management:

- (a) enhance the implementation and enforcement of existing systems to ensure their effectiveness;
- (b) establish an independent seal and file management system, regularly inspect and supervise the implementation of the filing work, and standardize the management of files;
- (c) set up necessary and independent risk assessment procedures or systems, conduct necessary due diligence on entities such as contracting parties, and adopt corresponding level of risk prevention measures for material transactions;
- (d) optimize the procedures for passing resolutions, decision-making and approval of material matters such as investment and external guarantees in the existing management system, improve the approval system for large-amount payments, standardize the approval and signing process of material contracts, and form an effective check and balance mechanism to ensure due supervision, authorization and approval;
- (e) strengthen the training of senior management personnel, improve their risk identification ability, and strengthen their risk prevention awareness;
- (f) when necessary, appoint other relevant professional institutions to assist in improving corporate governance and compliance management; and
- (g) strictly abide by the Listing Rules and the relevant requirements for information disclosure thereunder, conduct independent internal control evaluations, and establish sufficient internal controls and procedures to fulfill the information disclosure obligations under the Listing Rules.

The abovementioned deficiencies in the internal control system reflect the deficiency of the Group's internal control system to a certain extent. The Company has appointed an internal control consultant to conduct a comprehensive assessment of the Company's internal control and risk management systems.

E. Remedial measures

According to the relevant laws and regulations, the Group may seek compensation from the guaranteed parties for the deducted/transferred deposit certificates of RMB 13.4 billion in accordance with the relevant laws and regulations and the terms of the pledge guarantee contracts, or seek compensation from the actual recipients or users of the funds by virtue of the creditor-debtor relationship.

The Company is currently in discussion with China Evergrande regarding a proposal to repay the funds involved in the Pledges. The plan is mainly to set off the relevant sums by transferring assets of the Evergrande Group to the Group. The Company will issue further announcement(s) once the relevant repayment proposal has been finalised.

F. Limitations

During the course of the Independent Investigation, some of the relevant guaranteed parties claimed that they did not have business contact with the corresponding subsidiaries of the Group in relation to the Pledges, and it was the Banks that took the initiative to contact such guaranteed parties to facilitate the relevant transactions. Also, during the course of execution and performance of the pledge guarantee contracts, such guaranteed parties did not communicate with the Group.

Limited by factors such as the inability to obtain valid background information on the transactions between such guaranteed parties and the Banks and the inability to conduct interviews with the relevant Banks, the authenticity of the transaction background of the principal loan agreements secured by the deposit certificate pledge guarantees and its impact on the validity of the pledge guarantee contracts could not be analyzed further.

Due to the limited and incomplete information available and the possible subjectivity of the interview statements during the investigation process, there is no assurance as to the authenticity, accuracy and completeness of the content relating to the arrangements of the Pledges in the investigation which has not been verified by objective documentary evidence.

G. Continued Suspension of Trading

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended from 9:00 am on 21 March 2022. Trading in the shares of the Company will remain suspended until further notice.

Holders of the Company’s securities and potential investors of the Company are advised to exercise caution when dealing in the Company’s securities.

H. Definitions

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

“Bank 1” to “Bank 8” eight PRC domestic commercial bank(s);

“Board” the board of Directors of the Company;

“China Evergrande”	China Evergrande Group, a company incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3333) and the controlling shareholder of the Company;
“Company”	Evergrande Property Services Group Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6666);
“Director(s)”	the director(s) of the Company;
“Evergrande Group”	China Evergrande and its subsidiaries (excluding the Company and its subsidiaries);
“Evergrande Hengkang”	恒大恒康物業有限公司 (Evergrande Hengkang Property Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of the Company;
“Group”	the Company and its subsidiaries;
“Guangzhou Xinyuan”	廣州市鑫源投資有限公司 (Guangzhou Xinyuan Investment Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of China Evergrande;
“Guiyang Property”	恒大地產集團貴陽置業有限公司 (Hengda Real Estate Group Guiyang Property Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of China Evergrande;
“Guizhou Guangjuyuan”	貴州廣聚源房地產開發有限公司 (Guizhou Guangjuyuan Real Estate Development Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of China Evergrande;
“Hengda Real Estate”	恒大地產集團有限公司 (Hengda Real Estate Group Company Limited*), a limited liability company established under the laws of the PRC and a subsidiary of China Evergrande;
“Independent Investigation Committee”	a committee comprising independent Directors established by the Board to investigate into the Pledges;
“Independent Investigation”	the independent investigation carried out in respect of the Pledges;

“Intermediary Company 1” to “Intermediary Company 46”	46 third party company(ies);
“Jinbi Hengkang”	金碧恒康物業(北京)有限公司 (Jinbi Hengkang Property (Beijing) Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of the Company;
“Jinbi Hengying”	廣州市金碧恒盈物業服務有限公司 (Guangzhou Jinbi Hengying Property Services Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of the Company;
“Jinbi Huafu”	廣州市金碧華府物業有限公司 (Guangzhou Jinbi Huafu Property Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of the Company;
“Jinbi Property”	金碧物業有限公司 (Jinbi Property Management Company Limited*), a limited liability company established under the laws of the PRC and a subsidiary of the Company;
“Jinbi Shijia”	廣州市金碧世家物業服務有限公司 (Guangzhou Jinbi Shijia Property Services Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of the Company;
“Lanzhou Tiansheng”	蘭州天盛房地產開發有限公司 (Lanzhou Tiansheng Real Estate Development Co., Ltd.*), a limited liability company established under the laws of the PRC, a joint venture of China Evergrande and owned as to 49% equity interests by the Evergrande Group;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Pledges”	the deposit certificate pledge guarantees of approximately RMB13.4 billion in total provided by the Group for Third Parties 1 to 36;
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, Taiwan and the Macau Special Administration Region;
“RMB”	Renminbi, the lawful currency of the PRC;

“Shenzhen Hengda Material”	深圳恆大材料設備有限公司 (Shenzhen Hengda Material Equipment Co., Ltd.*), a limited liability company established under the laws of the PRC and a subsidiary of China Evergrande;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it under the Listing Rules;
“Third Party 1” to “Third Party 36”	36 third party company(ies), being the guaranteed parties of the Pledges;
“Zhaoqing Hengjin”	肇慶市恒晉置業有限公司 (Zhaoqing Hengjin Property Co., Ltd.*), a limited liability company established under the laws of the PRC, a joint venture of China Evergrande and owned as to 49% by Evergrande Group;
“%”	per cent.

By order of the Board
Evergrande Property Services Group Limited
Duan Shengli
Executive Director

Hong Kong, 15 February 2023

As at the date of this announcement, the Board comprises Mr. Duan Shengli, Mr. Hu Liang, Mr. Lu Peimei, Mr. Wang Zhen and Ms. Yu Fen as executive Directors, and Mr. Peng Liaoyuan, Ms. Wen Yanhong and Mr. Guo Zhaohui as independent non-executive Directors.

** For identification purposes only*