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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)

KEY FINDINGS OF INTERNAL CONTROL REVIEW

This announcement is made by Evergrande Property Services Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the Company’s announcement dated 1 September 2022 in relation to the additional resumption guidance issued by the Stock Exchange to the Company, and the Company’s announcements respectively dated 20 December 2022, 15 February 2023, 22 March 2023 and 20 June 2023 (the “**Announcements**”) in relation to, among others, the appointment of an internal control consultant by the Company to conduct an independent assessment of the Company’s internal control and risk management systems. Unless otherwise defined, capitalised terms used herein shall have the same meanings as used in the Announcements.

Grant Thornton Advisory Services Limited (the “**Internal Control Consultant**”), the internal control consultant appointed by the Company, has completed the relevant internal control system and processes review (the “**Internal Control Review**”) and issued the Internal Control Review report (the “**Internal Control Review Report**”) on 24 July 2023.

The Company’s responses to and the rectification measures adopted based on the findings and rectification recommendations of the Internal Control Consultant in the Internal Control Review Report are set out as follows:

1. Internal control at enterprise-level

Findings

- The Company’s corporate governance system did not incorporate certain aspects of Appendix 14 of the Listing Rules, in respect of the delegation of powers by the board of directors of the Company (the “**Board**”), the independence of independent directors, and the requirement for directors to undertake continuous professional development training.

- The Company failed to comply with the reporting, announcement and approval requirements in respect of connected transactions and notifiable transactions in accordance with its management system and Chapters 14 and 14A of the Listing Rules. Also, the Company did not have a mechanism for identifying, monitoring and approving notifiable transactions.

Recommendations of the Internal Control Consultant

The Company should establish a comprehensive mechanism, including systems and procedures, in response to the relevant requirements of the Listing Rules in order to handle and monitor compliance with the requirements of the Listing Rules.

The Company's responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Company has formulated and approved the “Director Authorisation Management Policy of the Property Services Group” and the “Compliance Management Policy of the Property Services Group” which set out the guidelines for the Board’s authorisation to the management and the requirements for the management to report on the authorised matters on a regular basis, and to specifically require the signing of annual confirmation of independence by the independent directors and training for directors of the Company (the “**Directors**”).
- The Company has formulated and approved the “Management Policy for Notifiable Transactions of the Property Services Group” which specifies the mechanism for identifying, monitoring and approving notifiable transactions, and the relevant procedures for complying with the approval and disclosure requirements for connected transactions.

2. Declaration of conflict of interest and mechanism for management of rights and responsibilities

Findings

- The Company’s management system before the Internal Control Review standardised the guidelines for the Board in considering matters which involved conflict of interest, but did not list out in detail the circumstances of potential conflict of interest and the required channels and mechanisms for making declaration, nor did it require directors, senior management and employees in sensitive positions to declare potential conflict of interest on a regular basis.

- The Company did not have a comprehensive mechanism to prevent the Group’s decision-making and execution of decisions from being influenced by its major shareholder, resulting in a lack of independence in decision-making, execution, reporting and approval. As such, the management of the Company followed the instructions of the management of the major shareholder at the relevant time and unknowingly made decisions that were not in the interests of the Company.

Recommendations of the Internal Control Consultant

The Company should improve its reporting and handling mechanism for conflict of interest, and the mechanism to prevent the Group’s decision-making and execution of decisions from being influenced by its major shareholder, China Evergrande Group, including to establish systems and procedures, and require relevant employees to declare conflict of interest on a regular basis, and require all employees to take the initiative to report to the Board and the senior management all inquiries and requests from China Evergrande Group, so as to strengthen the monitoring of conflict of interest and consolidate the independence of the Group as a listed company in terms of decision-making, execution, reporting and approval.

The Company’s responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Company has formulated and approved the “Management Policy for Declaration of Conflict of Interest of the Property Services Group” which specifies the scope of declaration, declaration process and requirements in respect of conflict of interest.
- The Company has formulated and approved the “Anti-fraud Management Policy of the Property Services Group” to specify fraudulent behaviours and important areas such as the channels and methods for reporting fraud, the department responsible for monitoring and implementing anti-fraud measures and its investigation authority, investigation and reporting process, and penalties.
- The Company has also formulated and approved the “Disciplinary Code for Directors of the Property Services Group” to stipulate that the Directors and the Board must comply with the Listing Rules, protect stock value, and are strictly prohibited from abusing their powers and harming the interests of shareholders, and to clarify certain important areas such as the protection for independent Directors in fulfillment of their duties, and the penalties for violations of work disciplinary codes.

3. Monitoring of financial and funds management

Findings

The Company had to further strengthen the monitoring of financial and funds management on certain important aspects such as the disclosure mechanism for financial statements, provision for assets impairment, financial analysis report, monthly closing process, accounting on accrual basis (such as recording of revenue and expenses), cash flow forecast and variance analysis, etc..

Recommendations of the Internal Control Consultant

The Group should strengthen the management of financial budget and analysis and cash flow. Apart from preparing relevant budgets, forecasts and analyses, it is also necessary to strengthen periodic monitoring. The finance department should comply with the International Financial Reporting Standards and record revenue and expenses on the accrual accounting basis and make timely accounting adjustments. It should strictly implement the requirement for reviewing original documentary proof and should not enter into record if there is insufficient evidence. The financial department should review the contract documents as book-keeping supporting documents in order to ensure the authenticity and proper authorisation of the transactions.

The Company's responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Company has formulated and approved the “Management Policy for Preparation and Disclosure of Financial Report of the Property Services Group” to ensure that all disclosed matters related to financial statements are in compliance with the relevant reporting standards and requirements. The person in charge of finance would ensure that the monthly closing process is properly completed, and would issue a monthly report and a monthly closing checklist for review and signing in accordance with the requirements under such system.
- The Company has formulated and approved the “Assets Impairment Management Policy of the Property Services Group” which stipulates that the finance department shall submit the calculation of loss on assets impairment or provision for impairment and the relevant supporting documents on an annual basis for approval in respect of provision for assets impairment, which can only be entered into the accounts after obtaining the signed approval of the relevant person in charge.
- The Company has prepared analysis report of key financial indicators to provide for the analysis and comparison of the Group's indicative financial data and financial ratios, and such review records are retained.

- The Company has optimised its business management system and input the vouchers to the financial system in a timely manner according to the actual performance and progress of contracts to ensure timely recognition of revenue on accrual basis.
- The Company has designated the comprehensive supervision centre of the Group (executive internal audit function) to be responsible for supervising violations of regulations and disciplinary codes, inspecting and supervising the work of various business divisions of regional property companies, and conducting appraisals based on the inspection results.

4. Proper retention of evidence of execution of control activities

Findings

In some cases, the Group's personnel with review or approval authority on some business processes did not retain written evidence after such review or approval activities, and did not retain supporting documents related to control activities.

Recommendations of the Internal Control Consultant

In respect of preparation and retention of supporting documents related to review or approval activities, the management should particularly emphasise the importance of internal control, maintain effective communication with and supervision of all management and employees, and continue to optimise and strictly implement established policies and procedures.

The Company's responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Company has requested that all control activities, especially financial statements, tender materials and other transaction documents be reviewed and approved in accordance with system requirements, and relevant records are kept, to ensure that responsible and supervisory control activities have been effectively executed.
- The Company has designated the comprehensive supervision centre of the Group (executive internal audit function) to be responsible for supervising violations of regulations and disciplinary codes, inspecting and supervising the work of various business divisions of regional property companies, and conducting appraisals based on the inspection results.

5. Execution of control activities

Findings

In some cases, the Group did not conduct control activities properly for some business processes in accordance with the requirements of established procedures / management systems / laws and regulations, or business was conducted without the approval of all approvers, or business was not conducted after approval.

Recommendations of the Internal Control Consultant

The Group should strengthen the supervision of the execution of control activities. It was recommended that the internal audit function of the Group conduct irregular spot checks on control activities in various fields, and strengthen the training of personnel in various departments in terms of professional ethics, compliance with internal control mechanisms and laws and regulations.

The Company's responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Company has further improved its management system, optimised the business processes, and conducted training for relevant personnel to ensure that various types of business processes are carried out in accordance with the established system. The Company's policies and procedures have also specified the inspection, supervision and penalty provisions in respect of the implementation of the system.
- The comprehensive supervision centre of the Group has inspected the work of various business divisions of the regional companies, and has sanctioned irregular behaviours.

6. Management system

Findings

Certain of the Group's work management systems and processes were not comprehensive enough, without providing detailed guidelines for dealing with potential conflict of interest, budgeting and variance analysis, identification and monitoring of related party transactions, bank account management, investment and financing management such as financial institution borrowings, external guarantee management, charge and pledge management, sales management system, procurement management system, cash and funds management system, fixed assets management system and tax management system, etc.. Also, some management systems had not been regularly reviewed and updated since they came into effect, or no review records were kept after review, or the effective date or version number was not indicated.

Recommendations of the Internal Control Consultant

The Group should improve its management systems as soon as possible, and regularly review its management systems henceforth. After each review and update of the management systems, the relevant review and update records should be maintained. The management systems should also indicate the effective date and version number. The Group should also provide training to and maintain effective communications with the relevant personnel on the updated systems.

The Company's responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has formulated and improved the relevant management systems and processes, indicating the effective date of the relevant systems with review and update records retained. The relevant systems have been distributed to all employees for adherence. The comprehensive supervision centre of the Group conducts irregular spot checks on the compliance of the systems from time to time.

7. Mechanism for monitoring seal management

Findings

The Group followed the “China Evergrande Group Seal Management Policy” without establishing its own separate and formal seal management policy and seal-using process. The Group’s administrative official seal and related seals and licenses were kept by China Evergrande Group’s supervision centre and regional supervision office. Therefore, there was a lack of independence in the management of seals and files and the allocation of institutional authority.

Recommendations of the Internal Control Consultant

The Group should formulate a seal management policy that is independent of China Evergrande Group, and retrieve the Group’s administrative official seal and related seals and licenses from China Evergrande Group for custody by the relevant departments of the Group.

The Company's responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Group’s administrative official seal and related seals and licenses have been retrieved from China Evergrande Group for the Group’s own custody.

- The Company has formulated the “Seal Management Policy of the Property Services Group” to regulate the application, approval and registration process for the use and lending of seal, and employees have been informed to stop following the “China Evergrande Group Seal Management Policy”. The Company has assigned a designated person as the custodian of the seals, and the seals can only be used after checking and verifying the use of seal information and approval records, and the relevant use of seals would be recorded on the registration form.
- The Company has also formulated the “File Management Policy of the Property Services Group” to regulate the filing and use of files and other processes, and various files are kept by different designated custodians.
- The “Internal Audit Management Policy of the Property Services Group” stipulates that audit work must focus on (such as conducting monthly spot checks) whether the seal management and seal-using process of the whole Group strictly abide by the system requirements. If major problems are identified in the audit, they should be reported to the Board in a timely manner.

8. Internal control mechanism for external pledge guarantee

Findings

There were deficiencies in the Group’s internal control system pertaining to external pledge guarantees. These deficiencies included the absence of a risk assessment mechanism specifically targeting external pledge guarantees. The initiation and approval of these guarantees were determined by the China Evergrande Group. Moreover, the Group failed to maintain and manage archival system for the documentation associated with external pledge guarantees.

Recommendations of the Internal Control Consultant

The Group should formulate a risk assessment mechanism for external pledge guarantee, establish independent management and decision-making for external pledge guarantee, keep records of the abovementioned risk assessment and decision-making in relation to external pledge guarantee, and have custody of and archive and manage the documents for external pledge guarantee.

The Company’s responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Company has formulated and approved the “External Guarantee Management Policy of the Property Services Group” (the “**Policy**”) which covers important

processes such as initiation of external guarantee, charge and pledge management, risk control, authority and approval, contract execution and information disclosure. All processes in the system will only involve the management personnel of the Group without the management personnel of China Evergrande Group.

- According to the Policy, if the Company intends to provide guarantees for entities other than its subsidiaries and controlled entities, such entities are required to meet specific conditions with a demonstrated strong solvency. All external pledge guarantee must be subject to the consideration and approval by the Board before the project approval process can be initiated.
- The Policy specifies that before initiating any external guarantee, the asset quality, operating conditions, industry prospects, solvency, credit status, etc., of the guaranteed person, as well as the reason and amount of the guarantee, must be verified. The guarantee must also be carefully considered to ensure that it has real commercial substance and rationale and is in the interests of the Company. If there is no real commercial substance and rationale or it is not in the interests of the Company, the relevant guarantee should not be initiated.
- The Policy provides that in respect of the continuous monitoring of external guarantees, if there is a serious deterioration in the operating conditions of the guaranteed party or major event such as dissolution or division of the relevant companies, the Board is obliged to take effective measures immediately to minimise losses. When the debt guaranteed is due, the Company shall urge the guaranteed party to fulfill the repayment obligation within the time limit. If the guaranteed party fails to perform its obligations timely, the Company shall take necessary remedial measures in a timely manner.
- Furthermore, the Company has formulated and approved the “Internal Audit Management Policy of the Property Services Group” which stipulates that whether the external pledge guarantee process of the Group strictly abide by the Policy will be the comprehensive supervision centre’s priority (such as conducting monthly spot checks), and any major problems identified in the audit will be reported to the Board in a timely manner.

9. Uses, supervision and disclosure of raised funds

Findings

Deficiencies were noted in the internal control mechanism of the Group for the uses, supervision and disclosure of raised funds, including the failure to establish a sound mechanism to ensure systematic management of raised funds, use of raised funds and change of uses of raised funds without prior approvals, and failure to make disclosure of changes of uses of raised funds. In addition, the supervision of approval of raised funds, actual implementation, and the use of funds were considered inadequate.

Recommendations of the Internal Control Consultant

The Group should set up a designated account for the raised funds, set up a ledger to record in detail the uses of the raised funds by entries, regulate the change of the uses of the raised funds, and assign an independent department to conduct special inspection of the raised funds regularly, and, if necessary, may consider engaging a third-party professional services provider to conduct independent special inspection on the management and supervision of the raised funds, and to revisit the existing mechanism or establish a mechanism for raised funds to improve the uses, supervision and disclosure of raised funds.

The Company's responses and rectification measures adopted

The Company has accepted and implemented the recommendations of the Internal Control Consultant, and has completed the following rectification works:

- The Company has formulated and approved the “Raised Funds Management Policy of the Property Services Group” to govern the storage, uses, change of uses, management and supervision of raised funds and other important processes,
- The above policy stipulates that raised funds shall be deposited in a designated account for raised funds, which was approved by the Board, and the designated account shall not hold funds other than raised funds and the funds in the account shall not be used for other purposes.
- The above policy also stipulates that the use of raised funds must be consistent with the commitments as stipulated in the listing documents, and the use of funds cannot be changed arbitrarily. If there is a need to change, it must first be reviewed and approved by the Board and announced.
- The above policy requires the Board to conduct a special inspection of the use of raised funds every six months, and make relevant disclosures in the annual reports and interim reports of the Company.

STATUS OF RECTIFICATION BASED ON THE INTERNAL CONTROL REVIEW

The Internal Control Consultant has recommended that the Company rectify the identified deficiencies in internal control, and the Group has responded to such identified deficiencies and implemented corresponding rectification measures as recommended. The Group has implemented all recommended rectification measures provided by the Internal Control Consultant based on the Internal Control Review.

THE INTERNAL CONTROL CONSULTANT'S VIEW

The Internal Control Review was carried out from 1 November 2022 to 21 December 2022. During the period from 1 January 2023 to 15 June 2023, the Internal Control Consultant conducted a follow-up review on the remediated internal control system and process of the Company and its subsidiaries involved in the Internal Control Review. As of the date of the Internal Control Review Report, there was no indication of any major deficiencies in the internal control systems and processes of the Company and its subsidiaries involved in the Internal Control Review after the implementation of the rectification measures recommended in the Internal Control Review. The Internal Control Consultant was of the view that, as of the date of the Internal Control Review Report, within the scope of its assessment work, the Group's internal control system and processes (including systems, processes and control implementation) have been designed and operating with fundamental effectiveness, and the relevant internal control risks are controlled at a reasonable level.

THE BOARD'S VIEW

Taking into consideration the Internal Control Review Report and the recommendations therein, and the view of the Internal Control Consultant, the Board is of the view that the recommended measures and rectification measures implemented by the Group are sufficient to address all major findings by the Internal Control Consultant in the Group's internal control system and processes. The Board is of the view that the Group has improved its internal control system and processes, and it is sufficient for the purposes of fulfilling the Company's obligations under the Listing Rules and protecting the Company's rights and interests.

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 reminded to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 30 July 2023

As at the date of this announcement, the Board comprises Mr. Duan Shengli, Mr. Han Chao and Mr. Hu Xu as executive Directors; Mr. Sang Quan and Mr. Lin Wuchang as non-executive Directors; and Mr. Peng Liaoyuan, Ms. Wen Yanhong and Mr. Guo Zhaohui as independent non-executive Directors.