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Xinyuan Property Management Service (Cayman) Ltd.

鑫苑物業服務集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1895)

(1) UPDATE ON INTERNAL CONTROL REVIEW; AND (2) CONTINUED SUSPENSION OF TRADING

This announcement is made by Xinyuan Property Management Service (Cayman) Ltd. (the “**Company**”) pursuant to the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and 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**”).

Reference is made to the announcement of the Company dated 15 August 2023 (the “**Independent Investigation Announcement**”). Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as defined in the Independent Investigation Announcement.

UPDATE ON INTERNAL CONTROL REVIEW

The Independent Advisor has reviewed and validated the Company’s systems and controls and has completed its review into the relevant matters during the period from 1 January 2022 up to 31 March 2023 (the “**Internal Control Review**”).

In the context of, and in particular, since completing the Internal Control Review, the Company has carried out various enhancements and remedial measures to address the findings and recommendations of the Independent Advisor.

SCOPE OF THE INTERNAL CONTROL REVIEW

The Independent Advisor reviewed the following processes of the Company and its subsidiaries (the “**Group**”) for the period from 1 January 2022 up to 31 March 2023 (the “**Review Period**”).

Business Process	Business Sub-Process
1. Connected Transactions Management	<ul style="list-style-type: none">a. Establishment of Connected Party Transaction Management Policyb. Management of Connected Persons Listc. Approval of Connected Transactionsd. Disclosure of Connected Transactionse. Payment Management of Connected Transactionsf. Reconciliation of Connected Partiesg. Monitoring of Connected Transactions
2. Daily Cash Management	<ul style="list-style-type: none">a. Establishment of Daily Management Policy of Fundsb. Organisation Structure and Responsibilitiesc. Internal Fund Transfer Managementd. Management of Cash on Hande. Regular Cash Accountsf. Bank Account Managementg. Bank Reconciliation Managementh. Invoice Management

Business Process**Business Sub-Process**

3. Wealth Product Management
 - a. Approval of Wealth Products Management Plans
 - b. Approval of Purchasing Wealth Management Products
 - c. Purchasing Wealth Management Products
 - d. Follow-up Procedure of Wealth Management Products

4. Financing Management
 - a. Establishment of Financing Management Policy
 - b. Organisation Structure and Responsibilities
 - c. Approval of Financing Programs
 - d. Approval of Financing Agreements
 - e. The Register of Fund Financing
 - f. Use of Funds Financing
 - g. Interest Payments and Accounting Treatment
 - h. Accounting Treatment for Fund Raising and Reimbursement

5. Secured Credit Management
 - a. Establishment of Secured Credit Management Mechanism
 - b. Review of Secured Qualification
 - c. Approval of Secured Credit Matters
 - d. Signing of Secured Credit Contracts
 - e. Tracking and Monitoring of Secured Credit
 - f. Termination of Secured Credit
 - g. Investigating Responsibilities of Secured Credit

Business Process	Business Sub-Process
6. Seal Management	a. Seal Engraving
	b. Seal Preservation
	c. Seal Using
	d. Seal Lending
	e. Seal Destruction
	f. Seal Transfer
7. Archives Management	a. Filing and Keeping of Archives
	b. Approval of Archives Use and Lending
	c. Archives Destruction
	d. Archives Transfer

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

The principal findings of the Internal Control Review and the recommendations of the Independent Advisor are summarised below.

Process	Key Findings	Recommendations
1. Connected Transactions Management	Lack of procedures for updating and distributing the list of Connected Persons	It is recommended that the Group update its policy relating to connected transactions and specify the mechanism and procedures for the identification and collection of connected persons as defined in Rule 14A.07 to Rules 14A.11 of the Listing Rules of the Group (“ Connected Persons ”) and distribution of the list of Connected Persons. In addition, the Group should adopt recommended control measures for identifying and collating the list of Connected Persons.

Process	Key Findings	Recommendations
	The list of Connected Persons is not updated in a timely manner and the Connected Persons are not fully identified	The Group should strictly follow the requirements of the policy and update the list of Connected Persons in a timely manner. In addition, the Group could organise regular training on Connected Persons and connected transactions.
	The payment process of connected transactions in the OA system is inconsistent with the Group's policy	The Group should update its connected transactions policy to ensure consistency between its policy and the procedures as set out in the OA system.
	Failure to effectively monitor and report abnormal matters of connected transactions	It is recommended that the: <ul style="list-style-type: none"> (i) The Financial Management Centre regularly track the execution of connected transactions and monitor the cash flow between the Group and Connected Persons. (ii) In case of any inconsistency with the underlying contracts, the Financial Department should assess the risks and impact and report it to the Management of the Group in a timely manner.
2. Daily Cash Management	There are inadequacies in the policies relating to financial management	It is recommended that the Company: <ul style="list-style-type: none"> (i) Clarify certain processes including changes in accounting policies. (ii) Define accounting policies, accounting estimates and other special accounting matters in the accounting manual. (iii) Clarify accounting entries and supporting documentation required for time deposits and interest accrual matters in the accounting manual.

Process	Key Findings	Recommendations
	Unclear cash concentration rules	<p>It is recommended that:</p> <ul style="list-style-type: none"> (i) The Company establish clear fund concentration rules which clarify the fund concentration requirements for each subsidiary. (ii) Subsidiaries submit a clear expenditure plan when applying for cash distribution. (iii) The fund balance of each subsidiary is monitored to concentrate idle funds and improve overall efficiency of fund utilisation.
	Lack of relevant approval procedures for debt set-off agreement	It is recommended that steps be taken to formalise the relevant approval and procedural procedures in relation to debt set-off.
	Internal fund transfers without relevant loan agreements and corresponding interest charges are not clearly defined	The Company should execute formal loan agreements and record relevant interest expenses/income in accordance with the terms.
	The elements of the bank account register are incomplete	The Company should adopt rectification measures, including, amongst others, updating the bank account management rules, and updating and maintaining the bank account register in a timely manner.
	Receiving bills of exchange without formal authorisation and credit assessment	It is recommended that the Company improve the credit management mechanism relating to bills of exchange, including assessment of creditworthiness of the issuers of bills receivable and notes management.

Process	Key Findings	Recommendations
	No records of counterparty confirmation for the handover	The Company should keep a record of any counterparty confirmation and record this on a timely basis.
	No bad debt records for overdue notes	Bad debt expenses for overdue bills should be recorded in a timely manner in accordance with the relevant accounting standards.
3. Wealth Products Management	No written wealth management product plan has been drawn up	It is recommended that the finance director draw up a wealth management product plan each month and submit it to the senior management of the Group.
	Unauthorised purchase of time deposits	The Group should strictly follow its policy and purchase time deposits only after completing the approval process.
	Lack of effective monitoring of the purchase of time deposits	The Group should assign a designated person to check and monitor the purchase of time deposits.
	Lack of post-investment management of wealth management products in the Group's policy	It is recommended that the Group clarify the rules for post-investment management of wealth management products in its policy. Further, the Group should clarify the supporting documents required for wealth management products in the accounting manual.
4. Financing Management	The Group's financing policy needs to be further improved	It is recommended that the Group improve its financing policy, including: <ul style="list-style-type: none"> (i) Defining clear rules for equity financing. (ii) Delineating the roles and responsibilities in financing activities, particularly in respect of the approval process. (iii) Clarify the rules for the use of special funds and supervision procedures. (iv) Clarify the consequences for non-compliance.

Process	Key Findings	Recommendations
5. Secured Credit Management	Unauthorised pledging of time deposits	The policy should be strictly enforced and unauthorised secured credit matters in any form including pledges and guarantees must be prohibited.
	Lack of a clear process for secured credit matters	The Company should design a formal process with control measures including setting the credit limit, approval matrix, assessing the credit risk, and defining clear accountability for secured credit matters.
6. Seal Management	Key elements are missing from the seal records in the seal management policy	All seal using information should be recorded and added in the seal using register, including the time at which the seal was used and returned.
	The reasons for engraving are not clearly stated in the seal engraving application	The seal custodian should strictly follow the requirements of seal engraving applications, including recording the purpose of the application and uploading the relevant supporting materials.
	The process of seal engraving application as set out in the OA system is inconsistent with the policy requirements	The Group should adjust the seal engraving application set out in the OA system on a timely basis.
	The overall control measures on the use of seal are ineffective, and the data security relating to the use of seal cannot be guaranteed	It is recommended that the Group design effective control activities to ensure the proper use of seals, including: <ul style="list-style-type: none"> (i) Adopting enhanced systems and controls, including technologies such as automated document comparison and portrait identification, with designated persons reviewing records of the stamped documents.

Process	Key Findings	Recommendations
		<ul style="list-style-type: none"> (ii) Requiring the seal custodian to record all documents stamped on the seal using register after each use. (iii) Operating a separate system account for seal use, with access granted only to authorised personnel within the Group.
	Unauthorised stamped contracts	The Company should strictly follow the requirements of the relevant seal management policy and use of the seal after obtaining approval for the seal using application.
	Use of the financial seal without undergoing the financial seal application process in the OA system	The Company should strictly follow the application process and different seals should follow different application process in the OA system in accordance with the policy.
	Incomplete records of seal usage	The Group should strictly follow the relevant policy requirements to record any use of the seals on the seal using register.
	Incomplete record of seal lending	The Group should strictly follow the relevant policy requirements to record the lending of seals in the seal lending register.
	Failure to arrange surveillance personnel when the seal is on loan	The Group should strictly follow the relevant policy requirements to supervise the whole process of using the seals on loan.
	Failure to strictly follow policy requirements for handing over of seals	The Company should strictly follow the policy for the handing over of seals.

Process	Key Findings	Recommendations
7. Archives Management	The requirements for personnel who can access the archives are not specified	The Company should establish rules to regulate personnel with access rights to the archives room.
	Failure to set up the archives borrowing process and approval matrix according to the secrecy level of files	The Group should follow the guidelines and set up the file borrowing process in the OA system and embed different approval matrices for documents with different secrecy levels in the system.
	Archives are not regularly appraised, and the destruction process is not carried out as the guidelines require	The Group should follow the guidelines and appraise the archives periodically, with designated processes for when the archives are destroyed, including suitable supervision.

RECOMMENDATIONS ON ENHANCED INTERNAL CONTROLS

As announced by the Company on 15 August 2023, in accordance with the Resumption Guidance, in particular Resumption Guidance (c), the Company has proactively taken on board, and the Board has resolved to implement, the enhancements recommended by the Independent Advisor, to ensure that its internal controls are appropriately strengthened and that any weaknesses and issues identified are comprehensively addressed. An overview of the Company’s key internal controls enhancements is set out in the section titled “Recommendations on Enhanced Internal Controls” of the Independent Investigation Announcement.

Further, since completing the Internal Control Review, the Independent Advisor has continuously reviewed the internal controls of the Company and related processes, for the purposes of testing and validating its enhanced systems which were implemented pursuant to the Independent Advisor’s recommendations, notably, the recommended enhancements over the Company’s internal approval processes, seal/chop storage and management, senior management oversight and record-keeping practices. This includes a follow-up review in October 2023, to verify the implementation status of the remedial actions taken by the Company during the period from 1 April 2023 to 15 October 2023.

Having conducted this further review, the Independent Advisor is of the view that the Company has fully adopted and implemented the recommended remediation measures which are adequate and effective in addressing the deficiencies identified in the Internal Control Review. To further enhance its internal control environment and prevent potential non-compliance with the Listing Rules in the future, the Independent Advisor has recommended that the Company adopt additional enhanced measures, which include:

- (a) Further clarification of the mechanism for collating and updating information on Connected Persons of the Group;
- (b) Improving version control of the Company's policies, to keep track of relevant updates made to the policies and the effective dates; and
- (c) Strengthening relevant training on use and management of seal and imposing more stringent requirements to regulate use of the seal.

As of the date of this announcement, the Company has fully adopted and implemented the recommended additional enhanced measures and will continue to keep its systems and controls and all matters concerning regulatory compliance under strict review on an on-going basis.

LISTING RULES IMPLICATIONS

On the basis of the findings of the Independent Investigation and Internal Control Review, given Xinyuan China is a subsidiary of Xinyuan Real Estate, the controlling shareholder of the Company, the transactions relating to the Pledges constitute financial assistance to the associate of a connected person. Pursuant to Rule 14.22, Rule 14.23, Rule 14A.81 and Rule 14A.82, the Pledges would be considered as if they were one single transaction by aggregation, as they were created within a 12-month period. Accordingly, the Pledges constitute a notifiable transaction under Chapter 14 of the Listing Rules and a connected transaction under Chapter 14A of the Listing Rules, and are otherwise subject to the relevant reporting, announcement, and shareholders' approval requirements under the Listing Rules.

The Company and its Board acknowledge that there was non-compliance with the Listing Rules and in connection with the Pledges, and has accordingly taken (and continues to take) steps to ensure there are not similar issues going forward. In this regard, as announced by the Company on 16 October 2023, the Company has also proactively taken steps to recover the losses occasioned by the unauthorised Pledges, including seeking prompt performance of Xinyuan China's payment obligations under the final and binding arbitral award awarded in the Company's and Xinyuan Science's favour.

OPINION OF THE AUDIT COMMITTEE

Having considered the findings from the Internal Control Review and the remedial measures taken by the Company, both the Audit Committee and the Board confirm their belief that the enhanced internal control measures implemented by the Company are appropriate and sufficient in addressing the key findings of the Internal Control Review.

The Company will meanwhile continue to render all necessary efforts to fulfil the Resumption Guidance in a manner satisfactory to the Stock Exchange, with a view to resuming trading in its shares as soon as possible in full compliance with the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on 16 November 2022 and will remain suspended until further notice. The Company will make further announcement(s) as and when appropriate.

The shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Xinyuan Property Management Service (Cayman) Ltd.
SHEN Yuan-Ching
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 15 November 2023

As at the date of this announcement, the Board comprises Mr. SHEN Yuan-Ching, Mr. FENG Bo and Mr. WANG Yong as executive directors; Mr. TIAN Wenzhi as non-executive director; and Mr. LI Yifan, Mr. LAN Ye, and Mr. LING Chenkai as independent non-executive directors.