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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)

FULFILMENT OF RESUMPTION GUIDANCE AND RESUMPTION OF TRADING

Reference is made to the announcements of Evergrande Property Services Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 20 June 2022 and 1 September 2022 (the “**Announcements**”) in relation to, among other things, the resumption guidance issued by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) to the Company. This announcement is made by the Company pursuant to Rule 13.09 (2)(a) of the Rules Governing the Listing of Securities on Stock Exchange (the “**Listing Rules**”) 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). Unless otherwise defined, terms used herein shall have the same meanings as defined in the Announcements.

RESUMPTION GUIDANCE

On 15 June 2022 and 30 August 2022, the Company received two letters from the Stock Exchange setting out the following guidance (the “**Resumption Guidance**”) prescribed for the resumption of trading in the shares of the Company on the Stock Exchange:

- (a) publish all outstanding financial results required under the Listing Rules and address any audit modifications (the “**Resumption Guidance 1**”);
- (b) conduct an independent investigation into the enforcement by relevant banks of pledge guarantee in the amount of RMB13.4 billion, announce the findings and take appropriate remedial measures (the “**Resumption Guidance 2**”);

- (c) demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which may pose a risk to investors and damage market confidence (the “**Resumption Guidance 3**”);
- (d) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules (the “**Resumption Guidance 4**”);
- (e) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules (the “**Resumption Guidance 5**”); and
- (f) inform the market of all material information for the Company's shareholders and other investors to appraise the Company's position (the “**Resumption Guidance 6**”).

FULFILMENT OF RESUMPTION GUIDANCE

The Company would like to inform the shareholders of the Company and the public that the Company has fulfilled the Resumption Guidance, with details as follows:

Resumption Guidance 1: publish all outstanding financial results required under the Listing Rules and address any audit modifications

On 5 June 2023, the Company has published the audited financial results for the year 2021, the interim financial results for the six months ended 30 June 2022 and the audited financial results for the year 2022.

As set out in the extract of the independent auditor's reports on the Group's consolidated financial statements for the year ended 31 December 2021 and for the year ended 31 December 2022, issued by Prism Hong Kong and Shanghai Limited (上會栢誠會計師事務所有限公司) (“**Prism**”), the Company's external auditor, Prism has stated that it has audited the consolidated financial statements of the Group. In Prism's opinion, such consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In view of the pledge and enforcement of RMB13.4 billion deposit of the Group and the net current liabilities and net liabilities position of the Group, Prism issued an unqualified opinion with explanatory paragraphs on the consolidated financial statements for the year ended 31 December 2021 regarding the pledge and enforcement of RMB13.4 billion deposit of the Group and the going concern assumptions. As the Group remained in a position of net current liabilities and net liabilities as at 31 December 2022, Prism issued an unqualified opinion with explanatory paragraphs regarding the going concern assumptions on the consolidated financial statements for the year ended 31 December 2022.

Reference is made to the announcement of the Company dated 16 January 2023 in relation to the change of auditor. PricewaterhouseCoopers (“**PwC**”) resigned as the Company’s auditor on 16 January 2023. In PwC’s resignation letter, it stated that it had not received information related to certain significant matters for the audit of the consolidated financial statements of the Company and its subsidiaries for the year 2021. Prism, the current auditor of the Company, has taken the following steps in the audit of the consolidated financial statements of the Group for the year 2021 in respect of certain information not having been received by PwC as mentioned in PwC’s resignation letter:

	Issues raised by PwC	Solutions or treatments used by Prism
1.	<p>With respect to the deduction of the RMB13.4 billion deposit pledge guarantee (the “Pledge Guarantee”) by the relevant bank as disclosed in the Company’s announcement dated 22 July 2022 on “Preliminary Findings of the Independent Investigation”, while the Company has provided the preliminary independent investigation report on the Pledge Guarantee, it has not yet provided:</p> <p>(a) the final independent investigation report issued by the independent investigation committee in relation to the Pledge Guarantee;</p> <p>(b) the accounting impact assessment in respect of the Pledge Guarantee, and the legal opinion on the Group’s legal ownership of RMB 13.4 billion non-trade receivables from China Evergrande Group (“Evergrande Group”);</p> <p>(c) the assessment on the specific plan for the repayment of the RMB13.4 billion by Evergrande Group to the Group and the recoverability of such amount, in order to determine whether any provision or written-off should be made;</p>	<p>(a) Prism has obtained the final independent investigation report in relation to the Pledge Guarantee issued by the independent investigation committee of the Company. Prism has assessed the independence and objectivity of the report and verified the supporting documents cited in such report on a sampling basis;</p> <p>(b) Prism has assessed the accounting impact in respect of the Pledge Guarantee and the Group’s legal ownership of RMB 13.4 billion non-trade receivables from Evergrande Group to the Group;</p> <p>(c) The management confirmed with Prism that the Company and Evergrande Group have not reached any agreement for the repayment of the RMB13.4 billion by Evergrande Group and a full provision of RMB13.4 billion receivables were made after the management’s assessment on the recoverability of such amount;</p>

<p>(d) the request for a comprehensive review by the management of the Group into the contracts or agreements entered into by the Group in order to identify whether there are other potential transactions or matters which have not been properly authorized or recorded; and</p> <p>(e) the results of the internal control consultant's comprehensive assessment of the Group's internal control and risk management system.</p>	<p>(d) Prism has required the Company's management to thoroughly investigate and disclose to them all major contracts or agreements that have been entered into by the Group. Prism has assessed the potential existence of any other transactions which have not been properly authorized or recorded, through procedures such as reviewing contract terms and obtaining confirmation letters. Through the additional procedures, apart from the Pledge Guarantee, Prism has not identified any other transactions which have not been properly authorized or recorded; and</p> <p>(e) The Company has appointed an independent internal control consultant to review the Group's internal control and risk management systems. Prism has obtained a copy of the report and has obtained an understanding of its content.</p> <p>Based on the above, Prism is of the view that it has obtained sufficient evidence to make a reasonable assessment on the accounting impact of the Pledge Guarantee.</p>
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2.	<p>The balance of the Group's trade receivables from Evergrande Group and its joint venture was approximately RMB2.3 billion as of 31 December 2021. The management of the Group is yet to provide supporting information and relevant assessment on the expected credit loss on the RMB2.3 billion trade receivables.</p>	<p>Prism has obtained the expected credit loss calculation table for these trade receivables prepared by the management of the Group (including the key parameters and variables adopted, such as the probability of default and the loss rate of default, etc.) and has assessed whether the methodology and key assumptions adopted are in compliance with the requirements of accounting standards and the Group's accounting policies, and the impact on the financial statements, etc. In addition, Prism also verified certain balances of receivables on a sampling basis and obtained confirmation letters from these debtors.</p> <p>Based on the above, Prism is of the view that the methodology and key assumptions adopted by the management are in compliance with the requirements of accounting standards and the Group's accounting policies.</p>
3.	<p>The assessment on the Group's going concern preparation basis for the year 2021 and implications of the relevant disclosure, plans and measures proposed for future cash flow, and reasonable explanations or basis for certain key assumptions adopted for the cash flow forecast.</p>	<p>Prism has reviewed the Group's key going concern assumptions and basis including but not limited to the 12-month cash flow forecasts, and the corresponding plans and measures that have been formulated and implemented.</p> <p>Based on the opinion of the directors and on the basis that all the measures taken by the Company can be successfully implemented, the Group will have sufficient working capital to meet its financial obligations as they fall due and accordingly, the consolidated financial statements have been prepared on a going concern basis in which Prism's opinion has not been modified.</p>

4.	Other important financial information, including supporting documents for part of the revenue, costs and fees, completeness analysis on liquidated damages and other liabilities, detailed information of certain litigations and accounting impact assessment of such cases, certain assessment materials relating to the acquisitions of property management companies by the Group in 2021 (including impairment assessment of intangible assets and goodwill, financial supporting documents, accounting impact assessment), balances with related parties and list of related party transactions as well as the reconciliations results thereof.	Prism has obtained relevant information of the Group for the years 2021 and 2022 to complete the audit.
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In view of the above, the Company has published all outstanding financial results required under the Listing Rules and considered that the issues raised by PwC in its resignation letter have been satisfactorily resolved. The Board is of the view that the Company has adequately fulfilled Resumption Guidance 1.

Resumption Guidance 2: conduct an independent investigation into the enforcement by relevant banks of pledge guarantee in the amount of RMB13.4 billion, announce the findings and take appropriate remedial measures

Reference is made to the announcements of the Company dated 21 March 2022, 29 March 2022, 22 July 2022 and 15 February 2023 in relation to the Pledge Guarantee.

The Company has established an independent investigation committee and appointed professional advisers to assist the independent investigation committee on the independent investigation in respect of the Pledge Guarantee. The key findings of the Independent Investigation has been published by the Company on 15 February 2023.

Key findings of the independent investigation

As disclosed in the announcement in relation to the key findings of the independent investigation, during the period between 28 December 2020 and 2 August 2021, six subsidiaries of the Company provided pledges to eight banks for the purposes of obtaining financing for third parties (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 such pledges was due. As the conditions for enforcing such pledges were triggered, the relevant banks deducted/transferred the deposit certificates in the total amount of approximately RMB13.4 billion.

Further findings of the independent investigation

To further confirm that all matters and relevant persons involved in the Pledge Guarantee were included in the investigation, the independent investigation committee has continued to instruct further interviews and investigations of the relevant persons involved in the Pledge Guarantee and conduct a supplemental independent investigation into the use of the proceeds from the initial public offering of the shares of the Company (the “**Proceeds**”) for the Pledge Guarantee after the publishment of its independent investigation findings on 15 February 2023.

Based on the results of the supplemental independent investigation, the Proceeds, when remitted to the Group, were commingled with the Group’s internal funds and were jointly used for the Group’s daily operations, as the Group did not establish a designated account for the Proceeds at that time, resulting the Group’s failure to detect the utilization of such Proceeds for the Pledge Guarantee in a timely manner.

The independent investigation committee believes that the findings of the independent investigation are sufficient to reveal the relevant facts and circumstances to expose the problem (including, but not limited to, the internal control deficiencies) and has made every effort to identify all persons involved in and connected with the incident, consistent with the key findings of the independent investigation published on 15 February 2023.

Remedial measures

Since becoming aware of the Pledge Guarantee, the Company has immediately carried out remedial measures such as internal control reviews, staff training and adjustments, and has adopted the recommendations of the independent investigation committee to actively implement various remedial measures and continue to carry out recovery actions against the third party and Evergrande Group.

- (1) The independent investigation committee has reviewed and accepted the findings of the independent investigation. The Group has implemented all the remedial measures recommended by the internal control consultant and the internal control consultant has performed follow-up review of the enhanced internal control system and procedures and noted that, on the basis of the Group’s completion of the implementation of the remedial measures recommended in the internal control assessment report, there was no indication of any material deficiencies on the internal control system and procedures in relation to the Company and its subsidiaries that were subject to the internal control assessment. For further details of the internal control assessment, please refer to the disclosures set forth in the section headed “Resumption Guidance 4: conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules” in this announcement.

- (2) In order to further address the root cause of the Pledge Guarantee and to prevent the recurrence of similar incidents, all directors of the Company involved in the Pledge Guarantee have resigned, and there are no regulatory concerns.
- (3) In addition to the regular trainings attended by the directors and senior management of the Company, the management of the Group's head office and its branches and subsidiaries, including all finance staff, have participated in comprehensive training courses to further enhance the awareness of the directors and senior management of the Group of their responsibilities under the Listing Rules and the rights and obligations of the Company, as well as to ensure that the abovementioned relevant personnel aware that the Group is not subordinate to the management of Evergrande Group and that all instructions are to be coming from the Company and within the Group.
- (4) Having considered the remedial measures adopted and implemented by the Company as set out above, the Board is of the view that the Group's internal control system and procedures, as strengthened by the remedial measures taken, are sufficient and adequate to address the issues which caused the Pledge Guarantee and to prevent the recurrence of similar incidents in the future.
- (5) The Company is actively and diligently taking various actions to recover its losses, including negotiation with Evergrande Group on the proposal for repayment of the amount involved in the Pledge Guarantee as well as considering the feasibility of litigation and other legal pursuits. The Company will update the market on any progress made by way of further announcement.

In view of the above, the Board is of the view that the Company has adequately fulfilled Resumption Guidance 2.

Resumption Guidance 3: demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which may pose a risk to investors and damage market confidence

All directors that were involved in the Pledge Guarantee have resigned from their positions and there are no regulatory concerns. The Company adjusted the composition of the Board on 21 June 2023 by appointing two executive directors who held no prior management positions with Evergrande Group for the purpose of future business planning and development needs, to optimize the governance and management structure of the Company, enhance the Company's independence and operational capabilities, and ensure the Company's steady, sustainable and high-quality development. The change in the structure of the Board has addressed and rectified the previous issue of the lack of management independence from Evergrande Group reported in the findings of the independent investigation.

In addition, the Company has conducted training on listing compliance for all directors and senior management, with particular emphasis on the code of conduct for directors, operational independence, inside information, information disclosure and related regulations. The Company has also formulated the “Compliance Management Policy of the Property Group”, which stipulates that directors and senior management are required to attend regular trainings annually, and that trainings are to be conducted in a timely manner on key and updated sections of the Listing Rules.

In view of the above, the Board is of the view that the Company has adequately fulfilled Resumption Guidance 3.

Resumption Guidance 4: conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules

The Company has appointed a professional internal control consultant in October 2022 to conduct an independent review and rectification of the Company’s internal control system. The result of the internal control review was published on 30 July 2023.

The internal control review was conducted during the period from 1 November 2022 to 21 December 2022. The internal control consultant has recommended remedial measures for the deficiencies identified during the course of its review. The Company has adopted the recommendations of the internal control consultant to enhance the internal control system and procedures. The internal control consultant conducted a follow-up review and on-site review of the enhanced internal control system and procedures of the Group during the period from 1 January 2023 to 15 June 2023, and concluded that after the Group had completed the implementation of the remedial measures recommended by the internal control consultant, there was no indication of any material deficiencies on the internal control system and procedures in relation to the Company and its subsidiaries that were the subject to the internal control assessment, and that the Group’s internal control system and procedures (including systems, procedures, control and implementation) have been designed and operating with fundamental effectiveness, and the related internal control risks can be controlled at a reasonable level.

Having considered the internal control report and the recommendations therein, the Board (including the audit committee of the Board) is of the view that the Group has had completed the implementation of the remedial measures recommended by the internal control consultant. The Group’s enhanced internal control system and procedures are sufficient to discharge the Company’s obligations under the Listing Rules.

In view of the above, the Board considers that the Company has adequately fulfilled Resumption Guidance 4.

Resumption Guidance 5: demonstrate the Company's compliance with Rule 13.24 of the Listing Rules

Sufficient level of operations

As at 30 June 2023, the Group had set up 26 regional companies and three independently branded subsidiaries nationwide, with over 80,000 employees. The business of the Group covers residential properties, commercial properties, theme parks, industrial parks, recreational and healthcare projects, schools, hospitals, banks, government buildings, high-speed railways, airports, scenic spots and other public construction projects and urban public services.

As at 31 May 2023, the Group had a total contracted gross floor area (“GFA”) of approximately 817 million sq.m. and a total number of 3,152 contracted projects. The Group had 2,759 projects under management, with a total GFA under management of approximately 506 million sq.m., and provided property management services to over 3.3 million property owners. These projects under management cover 22 provinces, 5 autonomous regions, 4 municipalities and Hong Kong.

Since September 2021, the Company has proactively re-aligned its business strategies, including (i) focusing on community value-added services such as community group purchases and housekeeping services to further increase revenue sources and optimize the revenue structure, and streamlining the Group's operating costs while opening up new sources of income; (ii) negotiating with suppliers and M&A companies for the extension of accounts payable; (iii) proactively ceasing to provide display units services, maintenance services and other non-owner value-added services to related parties; and (iv) enhancing internal controls to safeguard the sound operation of the Company. The Company's core business has been growing steadily. In 2022, the Group's total revenue was approximately RMB11.81 billion, of which the revenue from basic property management was approximately RMB9.44 billion, representing a year-on-year growth of approximately 4%.

The Company expects to maintain a growth level of revenue and net profit comparable to that of property service industry leaders, with a low financial risk to safeguard the Company's continued business and operations.

Sufficient assets

The Group has sufficient assets for its business operations. For the year 2022, the Group recorded total operating revenue of approximately RMB11.81 billion, gross profit of approximately RMB2.72 billion and net profit of approximately RMB1.48 billion. As at 31 December 2022, the Group had total assets of approximately RMB7.15 billion.

The Board is of the view that the Group has a viable and sustainable business with sufficient level of business operations and has assets of sufficient value to support its operations to meet the requirements under Rule 13.24 of the Listing Rules and warrant the continued listing of the shares of the Company on the Stock Exchange.

In view of the above, the Board is of the view that the Company has adequately fulfilled Resumption Guidance 5.

Resumption Guidance 6: inform the market of all material information for the Company's shareholders and other investors to appraise the Company's position

The Company has a reasonably practicable mechanism for disclosure of information. Since the suspension of trading in the shares of the Company, the Company has informed the market and the public of important information and the latest developments of the Company.

In view of the above, the Board is of the view that the Company has adequately fulfilled Resumption Guidance 6.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 21 March 2022. An application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 3 August 2023.

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

Hong Kong, 2 August 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.