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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)

SUPPLEMENTAL ANNOUNCEMENT
CONNECTED TRANSACTION IN RELATION TO
TRANSFER OF OPERATING RIGHTS OF SIX CLUBHOUSES

Reference is made to the announcement of Xinyuan Property Management Service (Cayman) Ltd. (the “**Company**”) dated 3 January 2024 in relation to the transfer of operating rights of six clubhouses from Henan Xinyuan to Xinyuan Science and Technology (the “**Announcement**”). Unless otherwise stated, capitalised terms used in this announcement have the same meanings as defined in the Announcement.

The Company would like to provide the following additional information in relation to the settlement of the Arbitral Award and the Operating Rights.

THE ARBITRAL AWARD

Set out below are details of the total amount of the compensation under the Arbitral Award and the amount paid as at the date of the Announcement:

(a) Compensation under the Arbitral Award

Total deposit principal	RMB402,380,000
Total interest losses	RMB24,438,181.84
Costs and expenses incurred in reviewing and investigating the matter	HK\$3,592,725.37 (approximately RMB3,354,552)
Costs of arbitration	approximately <u>RMB2,861,121</u>
Total	<u>RMB433,033,855</u>

(b) Amount paid under the Arbitral Award

Value of the non-cash assets, comprising equity interest in a company and property rights in the parking spaces of properties developed by subsidiaries of Xinyuan Real Estate, transferred to the Company on or around 13 November 2023

RMB402,549,000

(a)–(b)

RMB30,484,855

REASONS FOR AND BENEFITS OF ENTERING INTO THE TRANSACTION

The six Clubhouses are community-friendly spaces situated within certain residential projects owned by Xinyuan Real Estate which the Company has been actively managing and operating. The Company expects that multiple businesses and value-add services can be developed with the Clubhouses which have a total gross floor area of over 10,000 square meters, such as leasing to gym vendors, kindergartens or educational services vendors, hosting events and community sports games, leasing for uses as community services centers or offices, or redecorating into offices to generate rental income.

By securing 30 years of the Operating Rights, the Company will be able to operate the Clubhouses with a long-term business plan. For example, the Company could redecorate or remodel the Clubhouses in order to increase the rental value and prices for value-add services, and generate higher revenue with higher margin for the Group in the long run.

Taking into account the potential revenue growth anticipated to be brought about by the Clubhouses in the long run, the Board believes that the acquisition of the Operating Rights is in the interests of the Company and its shareholders, notwithstanding the additional cash payment of RMB13.4 million to Henan Xinyuan.

Given the liquidity issues faced by Xinyuan Real Estate, it is unlikely that Xinyuan Real Estate can pay the outstanding amount under the Arbitral Award in cash to the Company. The Company considers that it is in the best interest of the Company and its shareholders as a whole that the Company accepted the Operating Rights in satisfaction of the outstanding amount under the Arbitral Award. As the value of the Operating Rights was higher than the outstanding amount under the Arbitral Award, it was fair for the Company to make the additional cash payment of RMB13.4 million.

VALUATION OF THE OPERATING RIGHTS

As set out in the Announcement, the income approach was adopted by the Valuer for appraising the value of the Operating Rights. According to the Valuer, the income approach is the most appropriate valuation methodology because the Clubhouses had continuous operating income in the past years. Also, the Clubhouses are properties without Certificate of Property Ownership (非產權會所) and their transferrable property value cannot be valued. Therefore, the market approach is not suitable.

In additional to the special assumptions set out on pages 3 to 4 of the Announcement, the general assumptions adopted by the Valuer in conducting the valuation are set out as follows:

1. Current utilization assumption: It required an assessment of the value of an asset based on its current state of use and the way it is used. According to the requirements of the assessment, it was determined that such assumed conditions were established on the valuation benchmark date. If the economic environment changes significantly in the future, the Valuer will not bear any responsibility for different valuation conclusions due to changes in such assumed conditions.
2. Trading assumptions: It was assumed that the assets being appraised were already in the transaction process, and the Valuer conducted valuation in the simulated market based on the trading conditions of the assets being appraised. This assumption is one of the most basic assumptions for assets valuation.
3. Open market assumption: It was assumed that the assets being appraised would be traded in a relatively comprehensive open market, and both parties to the transaction had equal status and had the opportunity and time to obtain sufficient market information to make rational decisions on the functions, uses and transaction prices of the assets.

The assumptions related to discount rate, tax rate and revenue growth rates during the discounted cash flow forecasted period were made based on the historical operating revenue of the Clubhouses, and the profits rate, tax rate and interest rates level in foreseeable years:

1. A discount rate of 5.25% was adopted throughout the forecasted period. As discussed with the Valuer, the discount rate was the sum of (i) risk-free return rate of 2.25%, being the PRC bank's long-term deposit interest rate effective on the valuation benchmark date; and (ii) the risk return rate of 3% taking into account industry risks, operating risks, financial risks, other risks, etc.;
2. The number of discounted years was 30, which corresponded with the term of the Operating Rights;
3. The revenue growth rates used by the Valuer in the financial projections were conservative, being (i) approximately 1.8% to 2% for the first five years, determined based on the amount of existing contracts; and (ii) approximately 1% to 1.5% for the next five years taking into account inflation rate and rental increase. It was projected that the revenue for the final 20 years will remain constant;
4. Profits tax rate was 25% based on the fixed rate of 25% of the PRC corporate income tax; and
5. No terminal value was calculated as the valuation was based on 30 years' Operating Rights.

Taking into account that (i) the historical revenue of the Clubhouses in the past three years was under the impact of COVID-19, (ii) the Group will enhance the Clubhouses after obtaining the Operating Rights by carrying out renovations and upgrade of facilities to increase rental income and (iii) the revenue growth rates adopted by the Valuer in the financial projections was conservative, the Board takes the view that the financial projections underlying the valuation are consistent with the historical financial information in respect of the Operating Rights for the past three years.

Saved as disclosed above, all other information as set out in the Announcement remains unchanged and shall continue to be valid for all purposes. This announcement is supplemental to and should be read in conjunction with the Announcement.

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

Hong Kong, 22 January 2024

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.