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CHINA EVERGRANDE GROUP

中國恒大集團

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3333)

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 deposits pledge of Evergrande Property Services (a subsidiary of the Company) of approximately RMB13.4 billion by the relevant Banks. The Independent 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 Evergrande Property Services (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 various Third Party Companies (as guaranteed parties). The relevant funds (after deduction of fees) were transferred to the Group through certain guaranteed parties and various Intermediary Companies.

To sum up, during the period between September 2021 and December 2021, pledge realisation conditions were triggered as the deposit certificate pledge guarantees were due. The total value of deposits pledge of subsidiaries of Evergrande Property Services enforced by the Banks was RMB13.4 billion.

B. The Pledges

The Pledges are categorised into three tranches as follows:

B1. The first tranche of deposit certificate pledge guarantees — RMB2 billion

1. In December 2020, Jinbi Property (a subsidiary of Evergrande Property Services) provided a Third Party Company with a RMB2 billion deposit certificate pledge guarantee by way of its three-month fixed deposit in Bank 1, enabling such Third Party Company to obtain bank's acceptance drafts of equivalent value. After deducting and offsetting the relevant expenses paid by the Group, funds in the amount of RMB1,952.75 million were transferred indirectly to the Group via an Intermediary Company. As confirmed in a confirmation letter dated 2 July 2022 issued by Hengda Real Estate to Evergrande Property Services, the Group had already returned such funds to that Third Party Company in order to release the deposit certificate pledge guarantee.
2. In March 2021, Jinbi Property provided another Third Party Company with a RMB2 billion deposit certificate pledge guarantee by way of its six-month fixed deposit in Bank 2, enabling such Third Party Company to obtain a RMB1,955.4 million bank loan after deducting the relevant expenses. Such funds were transferred indirectly to the Group via the Intermediary Companies. Although there is no direct documentary proof that such funds were used to release the deposit certificate pledge guarantee mentioned in paragraph 1 above, other contemporaneous documents and the confirmation letter from Hengda Real Estate indicate that this was the use of the funds. The bank loan was due in September 2021, but the borrower failed to repay such loan. Subsequently, the RMB2 billion deposit certificate pledge guarantee provided by Jinbi Property was enforced by Bank 2 in September 2021.

B2. The second tranche of deposit certificate pledge guarantee — RMB2.7 billion

In June 2021, Jinbi Hengying and Evergrande Hengkang (two subsidiaries of Evergrande Property Services) provided deposit certificate pledge guarantee of a total amount of RMB2.7 billion to six Third Party Companies by way of fixed deposits in Bank 3, enabling such Third Party Companies to obtain bank's acceptance drafts of RMB2.7 billion. During the same period in June 2021, one of the aforementioned six Third Party Companies provided RMB2.7 billion to the Group, which was subsequently used to repay Jinbi Property in the same amount. The RMB2.7 billion deposit certificate pledge guarantee provided by Jinbi Hengying and Evergrande Hengkang was enforced by Bank 3 in September 2021.

B3. *The third tranche of deposit certificate pledge guarantees — RMB8.7 billion*

1. In January 2021, Jinbi Shijia, Jinbi Hengying, Jinbi Huafu and Evergrande Hengkang (four subsidiaries of Evergrande Property Services) provided deposit certificate pledge guarantee of a total amount of RMB8 billion to 16 Third Party Companies by way of fixed deposits in Bank 3 and Bank 4, enabling such Third Party Companies to obtain bank loan or bank's acceptance drafts from those two banks. After deducting expenses, funds in the amount of RMB7,793.875 million were transferred indirectly to the Group via different Intermediary Companies and Zhaoqing Hengjin (an associated company of the Company). In the first half of July 2021, certain Third Party Companies made payment to those two Banks in order to release the RMB8 billion deposit certificate pledge guarantee.
2. In July 2021 and August 2021, the four subsidiaries of Evergrande Property Services mentioned in paragraph 1 above and Jinbi Hengkang (another subsidiary of Evergrande Property Services) provided another set of deposit certificate pledge guarantee of a total amount of RMB8.7 billion for 17 Third Party Companies by way of fixed deposit in Banks 5 to 8, enabling such Third Party Companies to obtain bank loan or bank's acceptance drafts from such Banks. The funds in the amount of RMB8.7 billion were transferred indirectly to the Group via different Intermediary Companies and Zhaoqing Hengjin. Although from a chronological point of view, the release of the RMB8 billion deposit certificate pledge guarantee mentioned in paragraph 1 above first occurred in the first half of July 2021, and the deposit certificate pledge guarantee of RMB8.7 billion occurred on or after 20 July 2021, the currently available contemporaneous documents and the confirmation letter from Hengda Real Estate show that RMB8 billion out of the RMB8.7 billion was eventually paid to the Third Party Companies for the release of the RMB8 billion deposit certificate pledge guarantee mentioned in paragraph 1 above. Similarly, the remaining RMB700 million was used by the Group to repay debts in the PRC in early July 2021. From September 2021 to December 2021, the RMB8.7 billion deposit certificate pledge guarantee provided by the subsidiaries of Evergrande Property Services was enforced by the relevant Banks.

C. Background and reasons for the Pledges

In mid-to-late December 2020, the Group proposed a special financing project to meet its capital needs. The detailed plan was for the subsidiaries to provide pledges as security for external third parties to apply for bank financing, and the funds obtained by such third parties would then be injected into the Group to repay its liabilities and/or payables in February 2021. Subsequently, the purpose of the Pledge was to continue to make use of the special financing project to obtain funds for the Group's other operational and financial needs, including repaying liabilities and/or payables due at various points in 2021.

D. Personnel involved in the Pledge

As disclosed in the preliminary findings announcement of the Company dated 22 July 2022, Mr. Xia Haijun (“**Mr. Xia**”) and Mr. Pan Darong (“**Mr. Pan**”), the then executive Directors, and Mr. Ke Peng (“**Mr. Ke**”), the then executive president of the Company and Hengda Real Estate, participated in the arrangement related to the Pledge. In view of this, the Board resolved to request such persons to resign from their positions. After investigation, the Independent Committee does not recommend reinstating Mr. Xia, Mr. Pan or Mr. Ke to their original positions.

E. Observations and Conclusions of the Independent Committee

The incident of the Pledges reflects the potential internal control problems in the Group, which mainly include:

- (1) The behaviour of certain then Directors fell below the standards expected by the Company of its Directors, as the Pledge involved senior management/executive Directors at the Company level (potentially knowingly) procuring breach of the disclosure and compliance obligations under the Listing Rules by a listed subsidiary.
- (2) The deference with which the employees of the Company processed internal approvals to facilitate the arrangement of the Pledge indicated a need for more training about compliance requirements generally so that a proper vetting process is conducted. Employees should also know that good faith compliance questions may be raised and escalated in a manner whereby there should be no fear of retribution.
- (3) A number of the approvers of the transactions at the subsidiary level placed heavy reliance on the internal project owner (i.e. individuals or departments responsible for putting the matter forward for consideration) to have undertaken all necessary compliance checks for the intended transactions before seeking approvals. Therefore, limited independent vetting of the purpose, rationale and specifications of the intended transactions was undertaken on the part of the approvers.
- (4) There was a high degree of deference shown by the managers at the subsidiary level when facilitating the transactions because of the involvement and/or instructions of senior managers at the Company or Hengda Real Estate level. In particular, some of the employees remarked at the interviews that it was not their place to question a matter that was known to and driven by senior executives of the Group, even where the transactions were contrary to normal procedure. This raised a potential question as to whether independent judgment was being exercised in discharging their roles as approvers and gatekeepers.
- (5) The unusual circumstances of the transactions ought to have put the approvers on enquiry. For example, isolated approvals were sought for a series of transactions and no summary records were prepared to give a holistic picture of the arrangement; the intended

transactions were not in the usual order of business for the subsidiaries involved, the approvals were sought hastily within a short period of time and without supporting documents, etc. However, despite these red flags, there were no apparent queries or challenges raised.

- (6) The shared use of physical facilities, by the Group and Evergrande Property Services, for safekeeping of company chops and the inter-connected and sometimes overlapping approval system for use of company chops gave rise to the possibility that the company chops of subsidiaries of Evergrande Property Services were being used with the approval of senior managers of the Company or Hengda Real Estate but without the approval of the management of Evergrande Property Services.

In view of the above, the Independent Committee recommended that:

- (i) The Company should progress the appointment of an internal control adviser to conduct a comprehensive Group-wide internal controls assessment and provide detailed recommendations for internal control enhancements to the Board. The Company should then implement such enhancements recommended by the internal control adviser at the earliest practicable time. The Independent Committee considers that the appointment of an internal control adviser is also necessary for the purpose of supporting the external audit process and preparation of the Company's interim and annual reports for the financial year 2022/23.
- (ii) At the Company level, one of the ways to improve internal control is for the Company to monitor compliance by its subsidiaries with applicable laws and regulations and the Listing Rules through regular reporting of compliance issues, particularly in respect of intended and actual intra-Group transactions involving listed subsidiaries and their respective group companies. The Company and its individual Directors should also take into account the compliance requirements of its listed subsidiaries when making business decisions.
- (iii) As part of the overall internal control improvement, the Company shall re-examine the agreement and practice on the use of personal and company chops to ensure that the requests for use of chop by any entity of the Group (or any listed subsidiary) are independently considered and approved by the authorized approvers or senior management. Without the express approval of any authorized approver, the chop should not be used despite the approval by other persons within the Group (including senior management at the Group level).
- (iv) Authorized approvers responsible for approving transactions should have regard to the relevant facts and circumstances and consider whether the particular transaction is in the Company's best interest. Where there is doubt and potential risk of undue influence from another party (whether within or outside the Group), the matter should be escalated internally to the Board.

- (v) The Company should designate a department to be responsible for monitoring projects and transactions at the Company/Group level for their compliance with the Listing Rules. As the Directors have a collective obligation to ensure Listing Rules compliance, which is a duty that cannot be entirely delegated to other parties, the Board should ensure that mechanisms are in place to enable the Company to readily identify relevant project and transactions that have compliance requirements, so that steps can be properly taken to meet such requirements. The Independent Committee considers this to be a necessary part of introducing a cultural change within the Company and the Group towards a greater focus on regulatory compliance and ensuring that management at all levels of the hierarchy discharge their obligations.
- (vi) The Company should provide additional training to senior managers and other key staff to ensure that they have a firm understanding of their obligations and the obligations of the Group entities. In particular, for listed subsidiaries, the relevant staff must attend training to ensure they are fully aware of all applicable regulatory and Listing Rules requirements so that they are able to take independent steps to ensure compliance. Directors of listed entities within the Group must also be fully aware of their directors' duties and the requirements for compliance with the Listing Rules.
- (vii) Timely complete the settlement of the compensation for the losses of Evergrande Property Services caused by the Banks' enforcement of the Pledge in order to remedy the violations of such arrangement involving Evergrande Property Services.

F. Remedial measures

The Company is currently in discussion with Evergrande Property Services 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 Group to Evergrande Property Services. The Company will issue further announcement(s) once the relevant repayment proposal has been finalised.

G. Limitations

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.

H. 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.

I. 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”	board of Directors of the Company;
“Company”	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);
“Director(s)”	the director(s) of the Company;
“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 Evergrande Property Services;
“Evergrande Property Services”	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), and a subsidiary of the Company;
“Evergrande Property Services Group”	Evergrande Property Services and its subsidiaries;
“Group”	the Company and its subsidiaries (excluding the Evergrande Property Services Group);
“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 the Company;
“Independent 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(ies)”	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 Evergrande Property Services;
“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 Evergrande Property Services;
“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 Evergrande Property Services;
“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 Evergrande Property Services;
“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 Evergrande Property Services;
“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 Evergrande Property Services Group for the Third Parties Companies;
“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;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it under the Listing Rules;
“Third Party Company(ies)”	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 the Company and owned as to 49% by the Group;

“%”

per cent.

By order of the Board
China Evergrande Group
Hui Ka Yan
Chairman

Hong Kong, 15 February 2023

As at the date of this announcement, the executive Directors are Mr. Hui Ka Yan, Mr. Siu Shawn, Mr. Shi Junping, Mr. Liu Zhen and Mr. Qian Cheng, the non-executive Director is Mr. Liang Senlin, and the independent non-executive Directors are Mr. Chau Shing Yim, David, Mr. He Qi and Ms. Xie Hongxi.

* *For identification purposes only*