

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement



CHINA EVERGRANDE GROUP

中國恒大集團

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3333)

KEY FINDINGS OF INTERNAL CONTROL REVIEW AND REVIEW OF CERTAIN ISSUES RAISED BY FORMER AUDITOR

This announcement is made by China Evergrande Group (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 announcement dated 16 January 2023 in relation to change of auditor. The Company has appointed (i) RSM Nelson Wheeler Consulting Limited (“**RSM**”) to conduct a review on the internal control and procedures in relation to the additional resumption guidance, and (ii) Crowe (HK) Risk Advisory Limited (“**Crowe**”) to conduct a review on certain issues raised by the former auditor.

ADDITIONAL RESUMPTION GUIDANCE

The additional resumption guidance issued by the Stock Exchange to the Company on 30 August 2022 required, among other things, that the Company conduct an independent internal control review to demonstrate that the Company has established sufficient internal controls and procedures to fulfill the requirements under the Listing Rules. The Company has appointed RSM to review the internal control system and procedures in relation to the additional resumption guidance.

RSM has completed the relevant internal control review. The Company's responses to and the rectification measures adopted based on the findings on the key internal control deficiencies and rectification recommendations of RSM in the internal control review are set out as follows:

1. Internal control at enterprise-level

1.1 Integrity and ethical values

Findings (1)

The Group did not have a conflict of interest declaration system to regulate the ethical behavior process of employees, management and directors. In addition, the Group did not have a list of connected persons and connected transactions to ensure complete disclosure.

Recommendations

The Group should establish a conflict of interest declaration system to regulate the ethical behavior process of employees, management and directors, under which the Group should require directors to report conflicts of interest at least once a year, and directors and employees to report conflicts of interest to the Group when conflicts of interest occur.

In addition, the Group can also include the relevant conflict of interest declaration procedures into the "Employee Manual", and new employees shall confirm that they are aware of the Group's conflict of interest declaration process when obtaining the "Employee Manual" at the induction stage.

The Group should also establish a list of connected persons and connected transactions to identify connected persons and regularly update the list of connected transactions to facilitate timely response and disclosure by the finance department.

The Company's responses

The Company has accepted the recommendations and implemented the rectification measures according to the recommendations of RSM. The Group has established the "Conflict of Interest Policy of China Evergrande Group" to regulate the ethical behavior process of employees, management and directors, which requires employees and management (including directors) to complete the annual questionnaire and update the human resources center on any new situation that may lead to a conflict of interest.

In addition, the Group also included the "Conflict of Interest Policy of China Evergrande Group" in the "List of Contents Group Employees Should Know", requiring new employees to sign and confirm that they are aware of the Group's conflict of interest declaration procedures when they join the Group at the induction stage.

Furthermore, the Group has established a list of connected persons and breakdown of connected transactions to facilitate timely response and disclosure by the finance department.

Findings (2)

The Company has no formulated policies and management systems to monitor the Company's compliance with the corporate governance code under the Listing Rules and relevant laws and regulations (including information identification, monitoring and disclosure procedures for inside information, material information, notifiable transactions, connected transactions, and other transactions that should be disclosed).

Recommendations

The Company should formulate a compliance manual of policies and management systems to monitor the Company's compliance with the corporate governance code under the Listing Rules and relevant laws and regulations (including information identification, monitoring and disclosure procedures for inside information, material information, notifiable transactions, connected transactions, and other transactions that should be disclosed).

The Company's responses

The Company has accepted the recommendations and implemented the rectification measures according to the recommendations of RSM. The Company has formulated the "Corporate Governance Policy of China Evergrande Group", "Continuous Disclosure Responsibility & Procedures of China Evergrande Group", "Model Code for Securities Transactions by Directors and Employees of China Evergrande Group" and "Connected Transaction Management System of China Evergrande Group", to monitor the Company's compliance with the corporate governance code under the Listing Rules and relevant laws and regulations.

1.2 The Board, nomination committee, remuneration committee, audit committee and other committees

Findings

The Company has established the board of directors (the "**Board**"), audit committee, remuneration committee, and nomination committee, and has formulated the rules of procedures for the Board, terms of reference and appointment requirements of the Board committees, but the Company has not formulated a nomination policy for the Board.

Recommendations

The Company should formulate a nomination policy for the Board in order to regulate the methods and procedures for the nomination and selection of directors for the appointment of additional directors, replacement of directors and re-election of directors.

The Company's responses

The Company has accepted the recommendations of RSM. The Company has formulated the “Nomination Policy of China Evergrande Group Director”, which specifies the selection criteria and nomination procedures for directors.

1.3 Human resources policies, training and compensation mechanisms

Findings

The Group provided some training courses for the Board members to comply with the requirements of the Listing Rules, but did not provide relevant training for directors and key management of its subsidiaries.

Recommendations

The Group should regularly arrange training courses on the requirements of the Listing Rules, applicable laws and regulations for the directors and key management of its subsidiaries, so as to enhance the awareness of the Company's management and relevant personnel on the Listing Rules and applicable laws and regulations, and maintain relevant training records.

The Company's responses

The Company has accepted the recommendations of RSM. The Company has organized directors and key management of its subsidiaries to attend trainings on the Listing Rules and compliance requirements.

2. Financial reporting and information disclosure

Except for the issues identified in paragraph 1 above, RSM has not identified significant issues with the Company's internal control system and procedures for financial reporting and information disclosure.

3. Process level controls

3.1 Sales and receivables management (including property sales and lease income)

Findings (1)

When the Commercial Group recruits new tenants, they will collect tenants' personal information, such as ID cards and business licenses, and enter the information into the Mingyuan system for archiving. However, the Commercial Group has not formulated a written policy to regulate the evaluation process for new tenants.

Recommendations

The Commercial Group should formulate policies and procedures to regulate the evaluation process for new tenants, conduct background checks on new tenants and assess the tenancy ability of new tenants when they are recruited.

The Company's responses

The Company has accepted the recommendations and implemented the rectification measures according to the recommendations of RSM. The Commercial Group has formulated the "Verification Requirements for Merchants' Performance Ability", which stipulates that all tenants must provide business information including personal ID cards and business licenses. The Commercial Group is required to verify the performance capabilities of the tenants, and submit the verification records to the headquarters for review as an attachment to the project approval process.

Findings (2)

The "Measures for the Administration of the Commercial Group" has clearly stipulated various collection procedures in case of overdue rent payment by the tenants, but the Commercial Group has not yet established a ledger to record the progress and situation of the collection of arrears.

Recommendations

The Commercial Group should establish a ledger to record and track the progress of collection, communication and recovery of overdue payments, and submit it to the management for review on a regular basis.

The Company's responses

The Company has accepted the recommendations and implemented the rectification measures according to the recommendations of RSM. The Commercial Group has established a ledger, which includes the amount of overdue rent owed by customers, the records of rent reminder letters and the records of relevant communications.

3.2 Funds, cash and financing management

Findings (1)

The Group has formulated the "Management Measures Group Headquarters" and "Management Measures of Project Companies", which include the administration process, the approval authority and the land contract execution process for the project companies and project lands, but did not include management systems for non-real estate investment projects.

Recommendations

The Group should formulate relevant management measures to clarify the project approval process, regular monitoring and reporting process of non-real estate investment projects, and regularly evaluate existing non-real estate investment projects in accordance with relevant management measures.

The Company's responses

The non-real estate investment was not the main business of the Group and accounted for a small proportion of the Group's business in the past, which therefore was routinely managed on a single application basis. No similar business will be conducted in the future though, the Group has formulated the "Non-real Estate Project Investment Management System of Evergrande Group", which stipulates that plans for external investment, external transfer or disposal of non-real estate projects must be reviewed by the vice president of direct investment management and submitted it to the Board for approval. In addition, such management system also requires the cooperation partners and investment cooperation centers of external investment in non-real estate projects to conduct post-investment management of relevant investment matters, establish corresponding accounts, and regularly report the investment status to the Board.

Findings (2)

At present, the fund center of the Group organizes monthly meetings of the fund department and marketing & brand department of regional companies to discuss the expected new financing and mortgage payments in the coming month, but the Group has not formulated a written policy for liquidity management.

Recommendations

The Group should formulate relevant management measures to clarify the requirements for liquidity forecast and the approval process.

The Company's responses

Prior to the occurrence of liquidity problems, the financial center and the fund center would coordinate the preparation of cash flow balance forecast form on a weekly/monthly basis. At the same time, the Group issues fund payment plans on a monthly basis. The financial center, the fund center and the comprehensive management center are jointly responsible for the management and following up of the implementation of such plan. At present, the funds of the regional companies are generally co-managed and coordinated by the government to facilitate the fulfillment of "Property Delivery" related work. The Group will formulate the "Evergrande Group Cash Flow Budget and Implementation Management Measures" as recommended, and requires regional companies and subsidiaries to formulate "Annual Cash Flow Forecast Form" every year and submit it to the financial center and the fund center to

form an “Annual Cash Flow Forecast Summary Form”. The forecast summary form needs to be reviewed by the executive president of the Group and then submitted it to the Board for consideration and approval. In addition, the fund center also needs to regularly compare the “Annual Cash Flow Forecast Summary Form” with the actual data, and conduct variance analysis. The variance analysis will be reported to the executive president for review and then submitted it to the Board for consideration and approval.

ISSUES RAISED BY THE FORMER AUDITOR

The former auditor of the Company, PricewaterhouseCoopers (“**PwC**”), pointed out in its resignation letter that it required the Company to conduct review on the Group’s potential off-balance sheet wealth management products, other off-balance sheet liabilities and undisclosed deposits pledges. (“**Potential Off-Balance Sheet Liabilities**”), and the deduction of the RMB 13.4 billion deposit pledge guarantee (the “**Pledge Guarantee**”) by the relevant bank of Evergrande Property Services Group Limited (“**Evergrande Property Services**”), a subsidiary of the Company. The Company appointed Crowe to review the issues raised by PwC. The scope of review of Crowe covers financial years 2021 and 2022.

Crowe has completed the relevant review of the above-mentioned Potential Off-Balance Sheet Liabilities and Pledge Guarantee. The potential internal control deficiencies found in the review and the rectification measures are as follows:

1. The Pledge Guarantee

Internal control deficiencies in respect of the Pledge Guarantee

By referring to the “Financial Investigation and Consulting Report” dated 29 December 2022 issued by Grant Thornton (LLP) Guangzhou Branch as an independent investigation consultant engaged by the Company on the Pledge Guarantee and the Company’s announcement dated 15 February 2023, Crowe believed that the occurrence of the Pledge Guarantee highlighted potential deficiencies in the internal controls of the Group, including:

- Compliance monitoring: In terms of compliance, including the disclosure compliance with the Listing Rules, employees, including the directors, management and employees at the time, had insufficient compliance awareness, failed to establish an effective supervision and regular reporting mechanism, and failed to meet expected standards;
- Approval process: During the transaction approval process, due to employees’ obedience and reliance on the project leader, they did not exercise independent judgment on the purpose and reason of the proposed transaction and did not raise inquiries in good faith, resulting in the failure to identify unusual transactions in a timely manner and that the Group’s best interests were not effectively protected with limited independent scrutiny of the purpose and reason of the transaction; and

- Seal management: In terms of seal storage and seal approval, the seal storage locations and seal approval system of the Group and Evergrande Properties Services were not properly separated from each other, and the interconnected and sometimes overlapping seal approval systems allowed the use of seals of Evergrande Property Services without proper approval from its management.

Rectification of internal controls

In order to rectify the potential internal control deficiencies related to the Pledge Guarantee, the Group has formulated a rectification plan and adopted several remedial measures:

- Compliance monitoring: The Group has re-examined its compliance monitoring mechanism and made adjustments to relevant business processes. The rectification plan formulated by the Group includes updating relevant written management systems, setting up a compliance supervision department under the Group's Legal Affairs Center and the Hong Kong Company, establishing compliance check procedures, establishing a compliance reporting mechanism semi-annually, and provide training on the Listing Rules for employees.
- Approval process: According to the records of the Group's human resources department, the three former management personnel who participated in the approval of the Pledge Guarantee have officially resigned from all positions in the Group on 22 July 2022. Mr. Pan Darong has been working at Evergrande Peiguan Education Technology Co., Ltd. (恒大培冠教育科技有限公司), a subsidiary of the Company since 7 April 2023. He is responsible for comprehensive planning and administrative logistics work and reports to the person in charge of the comprehensive management. As Mr. Pan Darong is being employed as an ordinary employee, he has no management, approval or decision-making power. At the same time, the Group has re-examined its transaction approval mechanism and made adjustments to relevant business processes. The rectification plan formulated by the Group includes updating the relevant written management system, including transaction benefit analysis in the approval process of intra-Group transactions, expanding the person in charge of unusual transactions to deal promoters and each level of approval personnel, and enhancing the independence of the reporting channels in the reporting mechanism to the Company's audit committee.

The approval process for benefit analysis and unusual transaction mainly comprises each unit and its employees need to list the benefit analysis for the transaction when initiating the use of contract seal, and each department and each employee must strictly check the content of the contract and be responsible for the approval results. When the Group carries out external investment or project cooperation that involves connected transactions, after the transaction has been reviewed by the Investment Center, it will be reported to the Group's Legal Affairs Center for review, and a compliance review opinion will be issued; after being reviewed by the Group Legal Affairs Center, it must be reported to the Hong Kong Company for review and the secretary of the Board will arrange for compliance review of the transaction. After the compliance review of the relevant transaction is completed, it will be reported to the vice

president directly in charge of the investment center for approval. If the Company does not adopt the compliance review opinion, the relevant matter would need to be submitted to the Board for approval.

Every six months, the Group Legal Affairs Center will conduct spot checks on compliance in the approval of contracts involving the joint participation of various subsidiaries. The Group's Legal Affairs Center and the Hong Kong Company will report the compliance review results and report, including various confirmed and potential non-compliance matters, to the Board. The Board will conduct an assessment based on the report and takes follow-up investigations if necessary.

- Seal management: The Group has officially separated the storage locations of the seals of the Group and Evergrande Property Services since November 2022. A designated employee will be arranged to supervise the latest storage of each seal, and an independent physical count of the seals will be carried out every year according to the management system. At the same time, the seal approval system of the Group and Evergrande Property Services has been officially separated to prevent interconnection and overlapping approvals.

2. Potential Off-Balance Sheet Liabilities

In its resignation letter, PwC pointed out that the Group may have off-balance sheet wealth management products and other off-balance sheet liabilities and undisclosed deposit pledges, but it did not provide specific explanations regarding the potential off-balance sheet wealth management products referred to this issues.

Findings

According to Crowe 's review, the off-balance-sheet wealth management products referred to by PwC should be the wealth management products related to Evergrande Financial Wealth Management Shenzhen Co., Ltd. (恒大金融财富管理深圳有限公司) (“**Evergrande Wealth**”), an indirect wholly-owned subsidiary of the Company.

The targeted financing products (“**Targeted Financing Products**” or “**Wealth Targeted Financing Products**”) issued by Evergrande Wealth through third-party issuers (the “**Issuers**”), have been registered with each regional financial asset exchange (“**Financial Asset Exchanges**”) and approved for issuance.

(a) *Wealth Targeted Financing Products*

The subsidiaries of the Company have initiated multiple issuance plans for Targeted Financing Products through Evergrande Wealth in response to their capital needs. Evergrande Wealth coordinates the Issuers to file and register various Targeted Financing Products at the Financial Asset Exchanges. A number of Targeted Financing Products were issued after the Issuers completed the filing and registration procedures.

The Targeted Financing Products are issued by the Issuers, and the funds raised will ultimately flow into the Group by way of investment by the Issuers through four main ways, namely investment, lending to the project companies within the Group, discounting commercial acceptance bills issued by the Group, and investing in Evergrande bonds.

The Company has no control over the Issuers, and the Issuers are not a subsidiary in the consolidated financial statements of the Group. When the Issuers obtain funds from the investors, the funds and corresponding liabilities are off-balance sheet items of the Group. When the relevant funds flow into the Group through the above-mentioned ways, the Group has reflected the funds obtained, the corresponding equity and liabilities in its financial statements.

As at August 2021, due to difficulties in repayment, the sales of the Targeted Financing Products have been completely terminated. According to the Group's record, from the issuance to the termination of sales, the total amount of funds raised from the Targeted Financing Products were approximately RMB 92.1 billion.

Save for the above-mentioned Wealth Targeted Financing Products, there has been no other potential off-balance-sheet wealth management products of the Group based on the findings of the review.

(b) *Potential Off-Balance Sheet Liabilities associated with wealth management products*

The Group is the credit enhancement party (i.e. guarantor) of the Targeted Financing Products. Two subsidiaries of the Company have provided credit enhancement guarantees for the Targeted Financing Products and assumed unconditional and irrevocable obligations to make up the difference in full for the part of the Targeted Financing Products that has not been paid in full on schedule.

As at 31 December 2021 and 2022, unpaid principal and interest amounted to approximately RMB 41 billion and approximately RMB 34 billion, respectively.

In accordance with Hong Kong Financial Reporting Standards No. 9, the Group's guarantee obligations mentioned above must be recorded as financial liabilities at fair value for the financial years of 2021 and 2022, respectively. As the Group has already reflected the relevant funds raised from the Targeted Financing Products, corresponding equity and liabilities have already been recorded in the financial statements of the Group when the funds were invested by the Issuers into the Group. The Company has assessed the potential liabilities of the equity with the auditors, and has reclassified the equity accounts to liability accounts. Therefore, the Company believes that when the funds were invested into the Group, the consolidated financial statements of the Group have already reflected the fair value of the payment commitment of the Targeted Financing Products, and there is no need to record additional guarantee obligations.

(c) *Other Potential Off-Balance Sheet Liabilities associated with the wealth management products*

The review found that the Group had several lawsuits, including lawsuits related to the guarantee associated with the Targeted Financing Products. The Group has sorted out the liabilities related to the completed and pending litigations. According to the financial litigation ledger of Evergrande Wealth, the amount of litigation involving the Targeted Financing Products in 2021 and 2022 was nil and approximately RMB 500 million respectively. Adjustment has been made prior to the publication of the 2022 financial results of the Company.

No other potential off-balance-sheet liabilities related to wealth management products were found in the Group's loans, guarantees and cooperative investment contracts.

(d) *Potential Off-Balance Sheet Liabilities not associated with wealth management products*

According to Hong Kong Financial Reporting Standards No. 28, the accounts of associated companies (“**Associates**”) or joint ventures (“**JV**”) are not required to be reflected in the consolidated financial statements. Confirmation letters were issued to the cooperative investors of 32 Associates or JV to confirm whether there are any liability items such as equity transfers, repurchase guarantees/commitments behind the investment to such Associates or JV. As of the date of Crowe's report, no reply has been received confirming that the Group has equity transfer or repurchase guarantees or commitments and therefore no relevant potential off-balance-sheet liabilities have been identified.

By reviewing the joint investment agreements and supplementary agreements related to the associated or joint venture project companies, and tracking the relevant financial accounting records, no potential off-balance sheet liabilities have been found.

The Group's potential off-balance sheet liabilities include (i) the Group's equity repurchase commitment to minority shareholders or strategic investors of its subsidiaries (project companies); (ii) the Group's guarantee in favor of Associates, JV, construction units and suppliers; and (iii) unfulfilled instruments that are involved in legal proceedings. The Group has assessed the relevant liability items and confirmed that the relevant liability items have been reflected in its consolidated financial statements.

(e) *Potential undisclosed deposit pledge arrangements*

Through sampling, the Group's stamped ledgers for the period from 2021 to 2022 were selected for review for deposit pledge contracts with a contract amount of RMB 100 million or more. It was found that the Group had two deposit pledge guarantees during such period, which took place in March and April 2021 respectively, involving a total amount of approximately RMB 5.31 billion. The relevant deposit certificate pledge guarantee has been released before the end of 2021.

As at 31 December 2021 and 2022, all deposit pledge guarantees of the Group have been released and therefore there was no undisclosed deposit pledge arrangement on the year-end date of such period.

Evaluation of relevant internal control mechanisms

Based on the above findings and through the review of the Group's written management system, the Group has established procedures for the seals and contract approval, registration of seals and maintenance of seals in relevant procedures, and no major deficiencies in the management system have been found. However, during the review, it was found that the following internal controls need to be improved, mainly related to the Group's contract filing and seal approval procedures:

- The supervision center should coordinate with the department proposing transaction to confirm whether the contracts and related deposit pledge documents have been kept. The Company confirms that due to the large number of employees' resignation from August 2021 to March 2022, the relevant files were not properly kept after multiple handovers, resulting in failure to provide sampling contracts and related deposit pledge documents in a timely and complete manner;
- In addition to the above-mentioned personnel loss resulting in the seal approval form not being properly maintained, some seal application in the records have not been kept due to "company special work" and other circumstances, which is not conducive to ensuring that the approval process complies with the current procedures; and
- An electronic system has not been fully established for the registration of seal use. At present, only manual ledgers are used to register the use of seals. Contracts cannot be systematically classified, screened and linked to the seal approval records, which is not conducive to effective tracking of the department proposing seal use, and seal or contract approval status.

The Company has improved the monitoring system and process for the above-mentioned internal control findings.

RSM'S VIEW

The Group has implemented the respective recommended rectification measures (the "**Rectification Measures**") in the review by RSM and Crowe. From July to mid-August 2023, RSM has conducted a follow-up review on the enhanced internal control system and process of the members of the Group involved in the internal control review, and Crowe has also conducted a follow-up assessment on its review and completion of the rectification. As of the date of the internal control review report, after the Company has completed the implementation of the Rectification Measures, there is no indication that there are any significant deficiencies in the internal control systems and processes of the members of the Group involved in the internal control review. RSM believes 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 managed at a reasonable level.

THE BOARD'S VIEW

Taking into consideration the internal control review report and the recommendations therein, and the view of RSM and Crowe, the Board (including the independent investigation committee) is of the view that the Rectification Measures implemented by the Group are sufficient to address all major findings in the Group's internal control system and processes. The Board (including the independent investigation committee) 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 safeguarding 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
China Evergrande Group
Hui Ka Yan
Chairman

Hong Kong, 21 August 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.