Annexure "A"

恒大地产集团
EVERGRANDE REAL ESTATE GROUP
香港联合交易所股票代码：3333

Evergrande Real Estate Group
(Stock code: 3333.HK)

Citron RESEARCH

Table of Contents

Executive Summary

Evergrande Valuation

Evergrande has a market capitalization of US$ 8.9bn and trades at 1.6x book value. By market capitalization, Evergrande ranks among the top 5 listed Chinese properties companies. [1] [2]

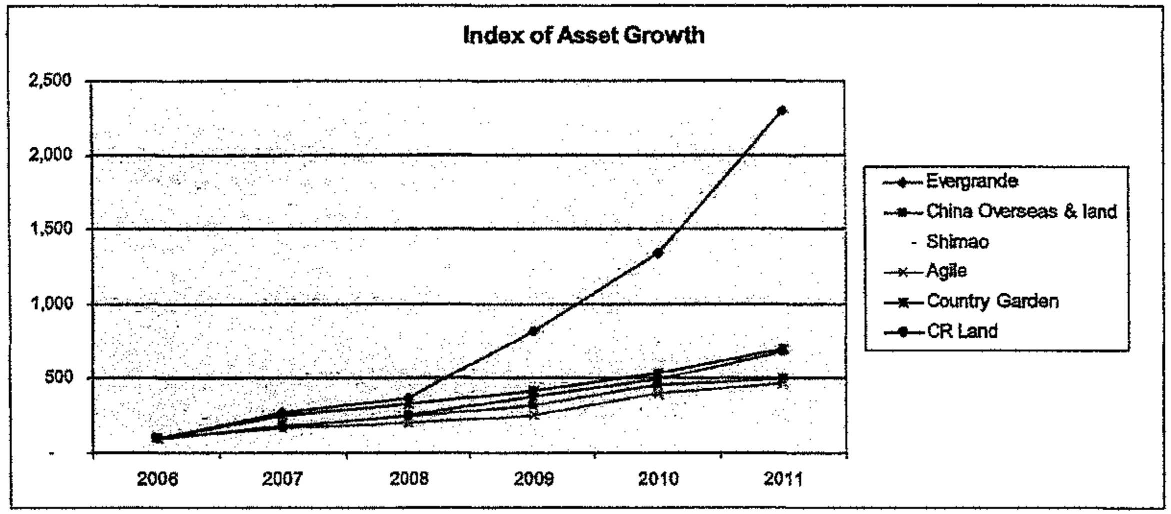
RMB, HKD and USD in billions, except as noted			6/15/2012
	in RMB	in HKD	in USD
Share Price	3.80	4.60	0.59
Total Shares Outstanding	14.9		
Market Capitalization	**56.7**	**68.7**	**8.9**
+ Current Borrowing	10.2		
+ Non-Current Borrowing	41.5		
+ Income Tax Liability	11.6		
+ Cash Advance from Customers	31.6		
Subtotal: Debt	95.0	115.0	14.8
- Unrestricted cash	(20.1)	(24.3)	(3.1)
Net debt	74.9	90.7	11.7
Enterprise value	**131.6**	**159.4**	**20.6**
Book Value as of 12/31/2011	34.9		
Ratio of Equity Market Capitalization to Book Value	**1.6x**		

Note: Assuming RMB /USD exchange rate of 6.4 and HKD/ USD exchange rate of 7.75

1] As of June 15, 2012, Evergrande ranked 5th in market capitalization behind China Overseas (668 HK), Vanke (000002 SZ), Poly Real Estate (6000048 SH) and China Resources Land (1109 HK)
2] Balance sheet data as of December 31, 2011

Perception

- Evergrande, which primarily operates in 2nd and 3rd tier cities, has grown its assets 23 fold since 2006, becoming the largest condo/ home developer in China.
  - To put Evergrande's asset growth into perspective, Evergrande has grown its assets 5x faster than its Chinese peers.



- Evergrande describes its over-sized, cheaply acquired land inventory as a primary competitive advantage. Because of its scale, the Company claims that it has been able to achieve a level of centralization and standardization that allows for unmatched cost control and industry leading asset turnover.
- As liquidity has tightened in the Chinese real estate sector, Evergrande assures investors that it is well capitalized and highly liquid.

Reality

- Our analysis and primary research reveal that: 1] **Evergrande is insolvent**; and 2] Evergrande will be severely challenged from a liquidity perspective.

- The Company's management has applied at least 6 accounting shenanigans to mask Evergrande's insolvency. Our research indicates that a total write-down of RMB 71bn is required **and Evergrande's pro forma equity is <u>negative 36bn</u>.**

- Over the past 5 years, Evergrande has executed an untoward program of bribes aimed at local government officials in order to build its raw land industry. To finance growing cash flow shortfalls related to these bribes, subsequent land purchases, and related real estate construction activities, Evergrande has employed a complex web of Ponzi-style financing schemes. These schemes are characterized by a reliance upon perpetually growing pre-sales, off-balance sheet partnerships and IRR guarantees to third parties.

- Evergrande's business model is unsustainable, and is showing signs of severe stress. Management is working hard to cover-up the company's precarious and rapidly deteriorating financial condition. However, with presales and condo prices now falling rapidly, with its income statement and assets materially overstated, and with its off-balance sheet guarantees looming as more and more imminent liabilities, our analysis suggests that the cover-up has entered its final inning.

- Meanwhile, the Company's management team has consistently displayed gross lapses of judgment. Ranging from "mail order" advanced degrees, to the diversion of more than US$2.5 billion of company resources to fund frighteningly off-strategy pet endeavors, the evidence of management misconduct at Evergrande is shocking.

Section 1 describes Evergrande's fraudulent account schemes. These schemes enable Evergrande to mask its insolvent balance sheet.

Evergrande reports RMB 35bn of equity. We have identified six cases of accounting misstatement, where Evergrande is either overstating assets or understating liabilities. Adjusting for these misstatements, Evergrande's pro forma equity is **negative** RMB 36bn. We are not the only analysts who have identified fraud at Evergrande: **On October 10, 2011, China's Ministry of Finance announced that it would be fining Evergrande for reporting inaccurate financial statements.**

FRAUDULENT ACCOUNTING #1: RMB 23bn balance sheet adjustment related to liability associated with off-balance sheet debt (page 15-17)

FRAUDULENT ACCOUNTING #2: RMB 17bn deduction from assets and equity due to overstated cash balance (page 18-19)

FRAUDULENT ACCOUNTING #3: RMB 12bn write-down related to overstatement of value of Chairman's pet projects (page 20)

FRAUDULENT ACCOUNTING #4: RMB 10bn write-down related to overstatement of value of Evergrande's investment property portfolio (page 21-23)

FRAUDULENT ACCOUNTING #5: RMB 6bn write-down related to underreporting of land costs (page 24)

FRAUDULENT ACCOUNTING #6: RMB 3bn deduction from assets and equity due to write-down of other segment receivables (page 25)

Fraudulent accounting adjustments		1	2	3	4	5	6		
in RMB bn	12/31/2011 as reported	Adjustment to reflect off-balance debt	Adjustment to exclude fake-cash	Write-down on pet projects	Write-down on investment properties	Adjustment to reflect underreporting of land costs	Write-down of other segment receivables	Total balance sheet shenanigans	Pro forma 12/31/2011 balance sheet
Assets									
Cash									
Restricted cash	8	-	-	-	-	-	-	-	8
Cash and cash equivalents	20	-	(17)	-	-	-	-	(17)	4
Subtotal	28	-	(17)	-	-	-	-	(17)	(5)
Property									
Properties under development	91	-	-	-	-	(6)	-	(6)	85
Completed properties held for sale	8	-	-	-	-	-	-	-	8
Investment properties	10	-	-	-	(10)	-	-	(10)	(0)
Subtotal	110	-	-	-	(10)	(6)	-	(16)	77
Other assets	41	-	-	(12)	-	-	(3)	(15)	26
Total assets	179	-	(17)	(12)	(10)	(6)	(3)	(48)	131
Debt+ liabilities									
Debt									
Borrowings	52	23	-	-	-	-	-	23	75
Customer deposits	32	-	-	-	-	-	-	-	32
Tax liabilities	12	-	-	-	-	-	-	-	12
Subtotal	95	23	-	-	-	-	-	23	118
Other liabilities	49	-	-	-	-	-	-	-	49
Total liabilities	144	23	-	-	-	-	-	23	167
Equity	35	(23)	(17)	(12)	(10)	(6)	(3)	(71)	(36)
Total liabilities + equity	179	-	(17)	(12)	(10)	(6)	(3)	(48)	131

Source: Evergrande filings, Citron research

Note: Evergrande reported 35bn of equity including minority interests. For simplification purposes, adjustments are made on a pre-tax basis. Corporate income taxes in China are usually 25%. Adjustment #2 related to fake cash assumes that cash balance and equity are overstated by RMB 17bn; an alternative might be to assume that liabilities (rather than equity) are overstated by RMB 17bn

Section 2 describes large risks to Evergrande's inventory of raw land which stem from the Company's use of bribes to procure discounted land and its disregard for idle land laws in China.

Evergrande acquired its vast land inventory at a deep discount to prevailing market prices by paying bribes to local officials. Evergrande's bribing schemes are coming to light, and precedent indicates that the central government will force Evergrande to return illegally obtained land. In addition, the central government is beginning to enforce idle land laws. Evergrande risks huge fines and the loss of the vast majority of its land inventory if the government continues to enforce these laws.

- The hyper-growth of Evergrande's raw land inventory in comparison with its stated business plan and with its peer group is a red flag.

- The fact that Evergrande has procured its vast raw land inventory at a 67% discount to its peer group is a further red flag.

- The notes to Evergrande's 2010 financials suggest that Evergrande has paid large bribes to local officials in order to acquire land at below-market prices.

- We present five case studies in which Chinese peers and central government have begun to shine light on Evergrande's untoward land acquisition activities.

- In addition to Evergrande's untoward land acquisition activities, Evergrande is in gross violation of China's idle use laws. If the government enforces these laws, Evergrande can not survive.

Section 3 outlines signs of a mushrooming financial and operational crisis at Evergrande.

We have identified 7 red flags that point to severe financial and operational stress at Evergrande.

- Crisis red-flags:
  - #1: Collection of cash deposits has flat-lined despite continued rapid growth in reported contracted sales
  - #2: Debt exploding
  - #3: Desperately resorting to senior secured trust financing at an interest rate of 25%
  - #4: Biggest decline of YTD pre-sales among 11 major Chinese property developers listed in HK
  - #5: Embarking on highly unattractive projects in order to raise pre-sale cash
  - #6: Heavy discounting and social unrest at Danyang project
  - #7: Reports in local Chinese press of large scale corporate restructuring and desperate delays in vendor payments

Section 4 describes Chairman Hui's bogus resume and [sketchy] financial background.

Chairman Hui has bogus credentials. Moreover, he has financed Evergrande utilizing a maze of Ponzi-esque debt and under-the-table-asset swaps.

- While Evergrande prominently touts the academic achievement attained by its management team, Chairman Hui secured his Doctorate from what is essentially a mail order program at the University of West Alabama.

- A timeline of Hui's corporate finance tenure at Evergrande shows a consistently recurring pattern of raising new debt backed by large personal guarantees in order to pay off old debt backed by slightly smaller personal guarantees.

- An examination of HK real estate record provides convincing evidence of the fact that Hui utilized under-the-table asset swaps with at least one HK billionaire to manipulate Evergrande's IPO price.

Section 5 describes the bizarre pet projects that Chairman Hui has compelled Evergrande to pursue.

Chairman Hui's pet projects are comically off-strategy and frighteningly expensive for Evergrande's shareholders. As of December 31, 2011, Chairman Hui has directed at least RMB 16bn (US$2.5bn) to support these bizarre, unprofitable ventures.

- Chairman Hui has directed Evergrande to invest heavily in professional sports teams:
  - Men's professional soccer: Evergrande spends more than RMB 488mm (US$76mm) per year on the payroll for its soccer team. Evergrande's budget is 7x the league average
  - Women's professional volleyball: Expenditures are unreported

- Chairman Hui has compelled Evergrande to invest at least RMB 700mm (US$ 110mm) to build the largest soccer academy in the world.

- Chairman Hui has compelled Evergrande to enter various verticals in the entertainment space.
  - Evergrande Animation Production Company
  - Evergrande Film and TV Company
  - Evergrande Artists Agency
  - Evergrande Record Company
  - Evergrande Cinema Line Company

The endgame is nearing for Evergrande. We project that Evergrande will face a severe liquidity crisis in 2012.

After burning RMB 14bn of cash in 2011, Evergrande is on pace to burn RMB 52bn of cash in 2012. With RMB 12bn of "real" cash on hand, we conclude that Evergrande faces an imminent liquidity crisis.

In RMB bn	Analysis of Evergrande 2012 cashflow gap	FY 2012	Source
	Estimated 2012 cash outflows		
a	Commitments for land expenditure	21.1	page 141, 2011 annual report, note 35
b	Commitments for property development	58.4	page 141, 2011 annual report, note 35
c = a + b	Subtotal	79.5	
d	Estimated interest expense	4.8	Citron estimate
e	Income tax payables	8.8	page 129, 2011 annual report, note 20
f	Selling expenses	2.7	Assumes 2012 selling expenses equal to 2011 selling expenses
g	Administrative expenses	2.2	Assumes 2012 admin expenses equal to 2011 selling expenses
h	Income tax expenses	8.6	Assumes 2012 income tax expenses equal to 2011 income tax expenses
i	Working capital	-	Not available
j	Other	-	Not available
k = sum(c:j)	Subtotal	106.5	
	Estimated 2012 cash inflows		
l	2012 YTD contracted sales	16.5	Sum of Jan to April 2012 reported contracted sales
m = l × 3	Estimated 2012 contract sales	49.4	Assumes annualized trailing four months contracted sales will equal 2012 contracted sales
n	% Cash collection rate on contracted sales	83%	Assumes 2-month delay b/c contract signing & payment. Assumes Evergrande collects cash on sum of Jan-Oct 2012 contracted sales
o = m × n	Estimated cash collected on 2012 contracted sales	41.1	
p	2011 reported contract sales	80.4	Evergrande reported RMB 80.4bn in contracted sales during 2011
n	% cash collection rate on contracted sales	83%	Assumes 2-month delay b/c contract signing & payment. Assumes Evergrande collects cash on sum of Jan Oct 2011 contracted sales
q = p × n	Cash collected in 2011	67.0	Cash collected in 2012 on Jan - Oct 2011 contracted sales
r = p - q	Estimated cash to be collected in 2012	13.4	Cash collected in 2012 on Nov - Dec 2011 contracted sales
s	**Total cash inflows**	54.5	
	Cashflow gap assuming cash is real		
s	Estimated 2012 cash inflows	54.5	
k	Estimated 2012 cash outflows	106.5	
t = s - k	Estimated 2012 net cash (outflows) inflows	(51.9)	
u	"Real" cash on hand	11.9	Calculated on page 19
v = t + u	**Cashflow gap**	(40.0)	

1] 2011 cash burn of RMB 14bn refers to Evergrande's 2011 combined cash used in operations and investment activities per Evergrande's 2011 filings

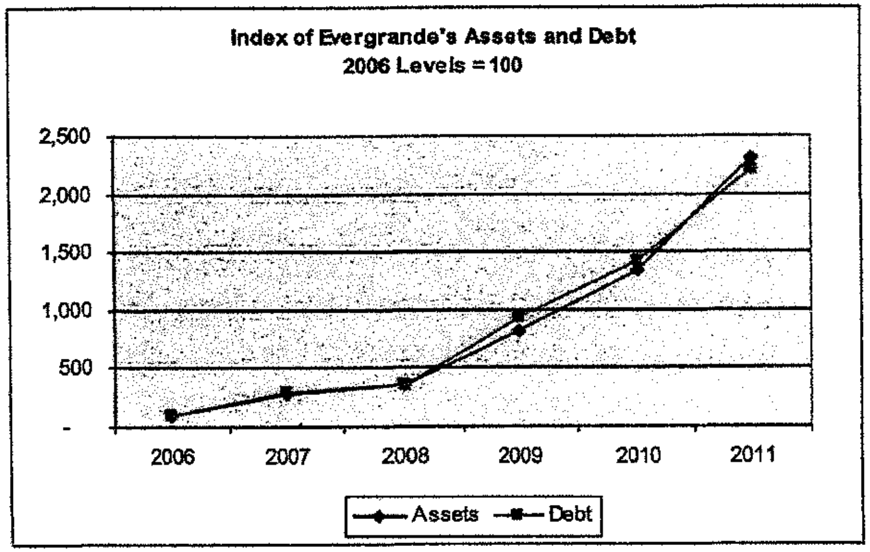
Note: Even assuming Evergrande's reported total cash balance of RMB 28.2bn at 12/31/2011, Evergrande would still have a funding gap in 2012 equal to RMB 23.7bn. Note that RMB 8.1bn of Evergrande's RMB 28.2bn of cash is restricted cash. Restricted cash is generally unavailable for working capital purposes

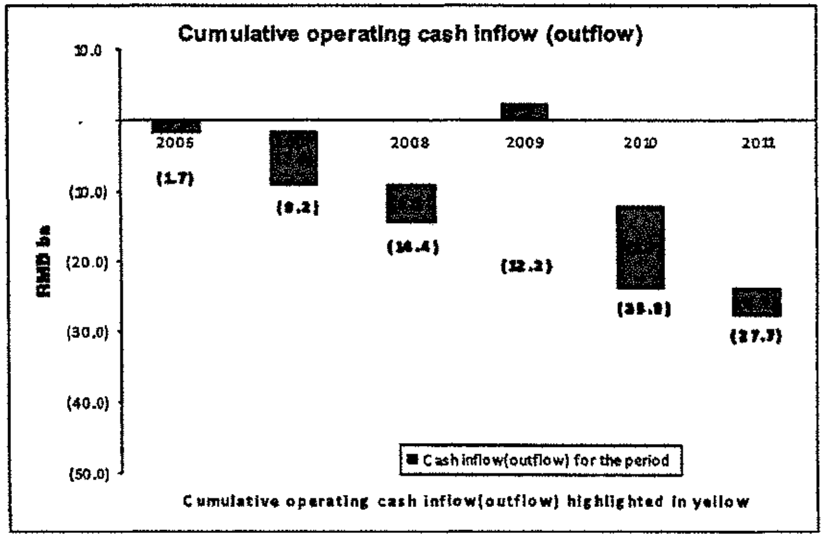
Section 1: Fraudulent Accounting Masks Insolvent Balance Sheet

Evergrande reports RMB 35bn of equity as of December 31, 2011. We have identified seven cases of accounting misstatement, where Evergrande is either overstating assets or understating liabilities. Adjusting for these misstatements, Evergrande's pro forma equity is **negative RMB 36bn.**

We are not the only analysts who have identified fraud at Evergrande: On October 10, 2011, China's Ministry of Finance announced that it would be fining Evergrande for reporting inaccurate financial statements.

Evergrande's has generated cumulative operating cash flow before Capex of **negative** 28bn since 2006. The Company's growth strategy relies heavily on ever-increasing access to debt funding. Evergrande's financial statements portray an image of prosperity, profitability and stability in order to maintain access to funding from capital markets and banks.





Note: Index of debt includes long-term borrowings, short-term borrowing, customer deposits, deferred tax liabilities and current income tax liabilities. Data per Evergrande filings.

FRADULENT ACCOUNTING #1: Evergrande's use of off-balance sheet vehicles is as astounding. Evergrande uses JV equity partners to finance individual projects. The JV partnerships are structured with mandatory buyback guarantees. Therefore, Evergrande's "equity JV partners" are lenders in reality.

The JV scheme allows Evergrande to grossly underreport its debt. At large IRR to the off-balance sheet investors, these partnerships are quite similar to the ones that Enron infamously employed.

- In its January 2010 13% senior notes prospectus, Evergrande disclosed it was required to repurchase interests in 12 JV deals. In one of these mandatory JV buybacks, Evergrande stated that it was required to "repurchased a 49% **equity** interest" in Hunan Xiongzhen Investment Co., Ltd (湖南雄震投資有限公司). [1]

  Hunan Xiongzhen Investment Co., Ltd. Based on the terms and conditions of the equity purchase agreement between us and the equity owners of this company in October 2007, we are required to acquire the remaining 49% equity interest in Hunan Xiongzhen Investment Co., Ltd. with our payment of the remaining consideration of approximately RMB 19 million in accordance with the agreement. This company is the holder of our Evergrande Palace Changsha project described under the section entitled "Business — Our Property Projects — Project Description — Changsha — (44) Evergrande Palace Changsha." We expect to complete such acquisition by March 2010.

- Yanglee Use-Trust, the registry of Chinese trust products, has information about a trust called "China Financial, Evergrande Palace Real Estate Development Project Investment JV Trust Plan" (中融·恒大华府房地产项目投资集合资金信托计划). [2] Translated in English, the trust description indicates that Evergrande hired China Financial Trust to raise capital to purchase a 49% equity in Hunan Xiongzhen Investment Co. Further, the description indicates that trust holders were offered a guaranteed return and the right to Evergrande's 51% stake, posted as collateral in the event of non-payment.
- Evergrande's characterization of the JV buyback as equity is preposterous. Evergrande's buyback of its JV partner's "equity stake" in Hunan Xiongzhen is clearly the repayment of a trust **loan**. Evergrande's has intentionally and systematically hidden its trust loans from investors in order to understate debt. Evergrande's 2010 annual report makes no mention of trust financing. In 2011 annual report, the only mention of trust financing was added to a VP's responsibilities. [3]

13% Senior notes prospectus dated January 2010

Xu Jianhua (許建華), age 47, our assistant president. Mr. Xu has more than 11 years of experience in capital operations and management and is accredited as a senior economist. Mr. Xu is responsible for our capital planning and operations management. Prior to joining us in March 2004, he was a senior manager at various departments of GF Securities Co., Ltd. from 2000 to 2004. He obtained a doctorate degree in business administration (international financial and investment) from Zhongshan University in 2000 and a post-doctoral degree in applied economics and finance from South Western University of Finance and Economics in 2003.

2011 Annual report dated April 2012

Xu Jianhua (許建華)

age 49, our vice president. Mr Xu is currently responsible for the Group's equity financing and trust financing. He has 13 years of experience in fund operations and has a doctorate degree in business administration. He is a senior economist.

1] page 100, Evergrande 13% Senior Notes Prospectus dated January 2010
2] http://www.yanglee.com/Shop.aspx?ItemID=282
3] page 201 of 13% senior notes prospectus and page 41 of Evergrande 2011 annual report

FRADULENT ACCOUNTING #1 (continued): Evergrande exploits off-balance sheet financing as a standard business practice. During 2010, Evergrande disclosed RMB 3.9bn in guarantees related to consolidated JV deals, RMB 1.7bn of guarantees related to unconsolidated JV deals and an additional RMB 11.7bn in commitments for unpaid land expenditure.

In early 2010, we estimate that Evergrande underreported its debt related to various JV deals equal to RMB 17bn.[1]

- In its January 2010 13% senior notes prospectus, Evergrande admitted that it had made more than **RMB 3.9bn** guarantees against its minority interest and **RMB 1.7bn** in guarantees to unconsolidated JV partnerships. Evergrande's off-balance sheet guarantees related its minority interests were 16x its reported minority interested of RMB 245mm at June 30, 2009. [2]

- Evergrande's January 2010 senior notes prospectus outlines off-balance sheet commitments (aka debt) of **RMB 11.6bn** for contracted, unpaid land expenditure. The prospectus provides no specifics as to what these commitments could represent. We believe these contractual obligations represent debt related to additional unconsolidated off-balance sheet JV partnerships that Evergrande employs to underreport its debt. [3]

- The company **no longer** discloses any details about its unconsolidated JV's.

Equity Acquisition Payment Obligations

As of the date of this document, we have substantial payment obligations in connection with our current yet-to-complete acquisitions of companies that own land use rights in China. We are under contract to acquire 100% of the equity interests in these land-owning companies. For some, we have already acquired a majority stake, with a minority interest still outstanding and subject to the completion of our purchase upon payment by us of the remaining consideration pursuant to the sale and purchase agreement. The total consideration for such minority stakes is approximately RMB 3,932.4 million as of the date of this document. We have disclosed each such case under the section entitled "Corporate History and Structure — Our Current Corporate Structure" in this document. For others, we have signed the relevant sale and purchase agreements and paid a small portion of the purchase price, but have not completed the various other conditions in order to effect the transfer of any equity interest to us as of the date of this document. The total yet-to-be-paid consideration for such land-owning companies is approximately RMB 1,694.7 million as of the date of this document. We have disclosed each such case under the section entitled "Business — Other Land Acquisitions" in this document.

(c) ***Commitments for land expenditure***

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for.	1,627,454	5,701,475	10,235,592	11,615,701

Source: page 208, 13% senior notes prospectus dated January 2010

1] Assumes no overlap between RMB 3.9bn in guarantees related to minority interests buybacks, RMB 1.7bn guarantees related to unconsolidated JV buybacks and RMB 11.6 bn in guarantees related land purchases

2] page 208, Evergrande's 13% Senior Notes Prospectus dated January 2010

3] page F-81, Evergrande's 13% Senior Notes Prospectus dated January 2010

FRADULENT ACCOUNTING #1 (continued): Today, Evergrande's off-balance sheet debt related to JV buybacks and unpaid land deals exceeds **RMB 23bn** and possibly as much as **RMB 56bn**.

Evergrande's off-balance sheet shenanigans continues. Evergrande no long discloses guarantee associates with JV buyback guarantees. A review of Evergrande's 2011 annual report reveals that Evergrande is hiding **at least** RMB 23bn in off-balance sheet debt: reported minority interests were RMB 1.8bn and unpaid land expenditures were RMB 21bn at December 31, 2011. [1]

In US$bn	Low case	Base case	High case
Debt related to contracted but unpaid land deals	$ 21.1	$ 21.1	$ 21.1
Debt related to buyback of minority interests	$ 2.2	$ 8.1	$ 34.7
Estimated Evergrande's total off-balance sheet debt	$ 23.2	$ 29.1	$ 55.8

- We estimate that Evergrande is currently exposed to a minimum of RMB 23bn of off-sheet balance sheet debt related to interest buybacks
  - Debt related to contracted, unpaid land deals: In its 2011 annual report, Evergrande disclosed RMB **21bn** of commitments related to contracted but unpaid land at December 31, 2011
  - Debt related to buyback of minority interests:
    - Low case: Evergrande reports minority interest of **RMB 2.2bn**. The Company no longer reports the level of guarantee associated with these minority interests as we presented on page 16. However, we believe that Evergrande has continued to entice JV partner with escalating guarantees.
    - Base case: If we assume that Evergrande guarantees its minority interest a 5-year 30% IRR, we estimate that the off-balance sheet debt amounts to **RMB 8.1bn**
    - High case: If we apply Evergrande's historical deals as a guide and apply a 16x multiple to its reported minority interest, we estimate that Evergrande now has off-balance sheet debt totally **RMB 34.7bn**

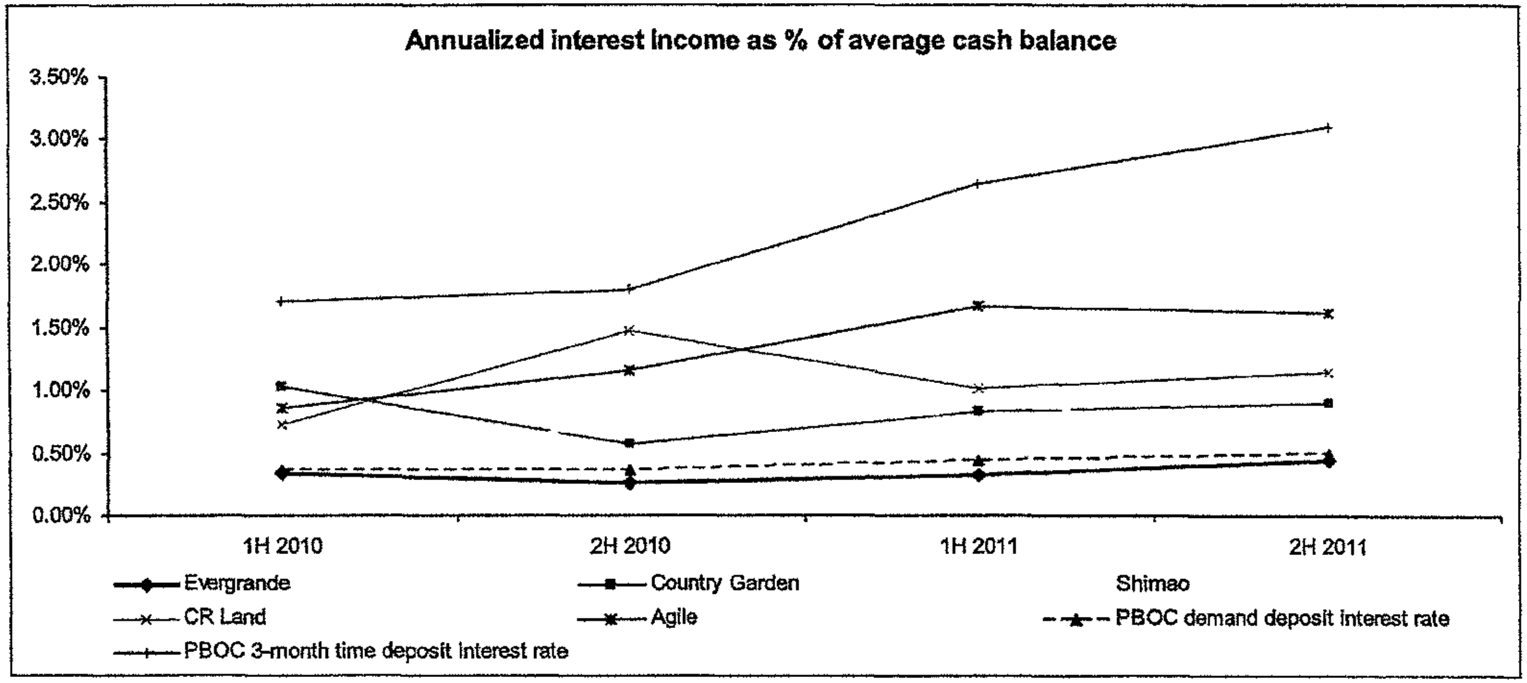
(b) Commitments for property development expenditure

	31 December 2010 RMB'000
Contracted but not provided for	
- Property development activities	[illegible]
- Acquisition of land use rights	[illegible],973,587
	46,806,194

1] page 141, Evergrande's 2011 annual report

FRADULENT ACCOUNTING #2: Evergrande's reported cash balances are **bogus.**

Evergrande's peers earn yields on their cash within the relevant band of deposit rates set by the People's Bank of China (PBOC), between the PBOC demand deposit rate and the PBOC 3-month deposit interest rate. In comparison, Evergrande's calculated yields on its average cash balance have been below PBOC mandated rates since beginning of 2010. Evergrande's reported cash balances are either fake or temporary window dressing.



Source: annualized interest income as % of average cash balance based on public filings. PBOC interest rate data per PBOC website and reflects time–weighting to account for changes in PBOC interest rates

FRADULENT ACCOUNTING #2 (continued): Evergrande's paltry yield on reported cash suggest that Evergrande is overstating its cash balance by **RMB 17bn** (more than 200%).

For six months ended December 31, 2011, Evergrande reported average cash balance of RMB 28.4bn. Applying a blend of comparable company cash yields, we calculate that Evergrande's actual cash balance is as low as 11.9bn. Relative to trailing cash used in operation and investing activities in 2011 of RMB 14bn, Evergrande's cash position is dangerously low.

Benchmark of annualized yield on cash balance	1H 2010	2H 2010	1H 2011	2H 2011
Evergrande	0.33%	0.26%	0.33%	0.45%
Country Garden	1.03%	0.58%	0.84%	0.90%
Shimao	0.65%	0.67%	0.93%	0.60%
CR Land	0.73%	1.46%	1.02%	1.14%
Agile	0.86%	1.16%	1.67%	1.62%
Average of peers	0.82%	0.97%	1.12%	1.07%

Estimate of Evergrande's real cash balance assuming peers' cash yield	1H 2011	2H 2011
Evergrande interest income (RMB mm)	79.6	126.7
Average of peers' cash yield	1.12%	1.07%
Implied Evergrande average cash balance (RMB bn)	**7.1**	**11.9**
Evergrande reported cash balances	1H 2011	2H 2011
Beginning of period (RMB bn)	20.0	28.7
Ending of period (RMB bn)	28.7	28.2
Average reported cash balance (RMB bn)	**24.3**	**28.4**
Delta between average reported cash and avg. "Real" cash (RMB bn)	**17.2**	**16.6**

Estimate of Evergrande's real cash balance

Overstatement of cash balance by RMB 16.6bn

1) yield on cash balance is calculated by annualizing reported interest income divided by average cash balance for the period. Average cash balance is the simple mathematical average of beginning of period and end of period reported cash balances including cash and cash equivalents and restricted cash.

FRADULENT ACCOUNTING #3: Evergrande grossly overstates the value of Mr. Hui's Pet pet projects. We estimate that a **RMB 12bn** write-down is required.

Mr. Hui's pet projects generate paltry revenues and lose money. If Evergrande were to mark these assets to realized based on reasonable valuation methodology, a **RMB 12bn** write down would be required.

- Hui's pet projects comprise Evergrande's "other" businesses. On December 31, 2011, Evergrande's investment in its other businesses equaled RMB 16.2bn. In 2011, Hui's pet projects generated revenue of RMB 897mm and operating loss of RMB 252mm [1]
- Even under absurdly generous assumptions, the value of Mr. Hui's pet projects are wildly overstated on Evergrande's balance sheet; a RMB 10bn write down is required.
  - Method #1 (EBTIDA): Assuming Evergrande's other businesses had an absurdly high EBITDA margin of 50%, implied is that the other businesses would generate RMB 435mm. Assuming a 10x EBITDA multiple, the other businesses are worth RMB 2.0bn. Using EBITDA multiple methodology, Evergrande's other assets are overstated by **RMB 11.9bn**
  - Method #2 (Revenue): Assuming Evergrande's businesses traded at an absurdly high revenue multiples 5x, Evergrande's other businesses would be valued at RMB 4.5bn (RMB 897mm multiplied by 5 times). Using this revenue multiple methodology, Evergrande's other assets are valued overstated by **RMB 11.8bn**

Segment assets and liabilities as at 31 December 2011 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other businesses RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	154,138,240	18,918,630	1,953,7[illegible]	16,240,994	(13,[illegible]16,215)	177,935,357
Unallocated						1,088,051
Total assets						179,023,408
Segment liabilities	85,433,445	–	698,029	7,092,912	(12,414,284)	80,810,102
Unallocated						63,355,701
Total liabilities						144,165,803
Capital expenditure	427,985	5,278,428	25,395	3,809,297	–	9,541,105

1] page 106, Evergrande 2011 annual report

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other businesses RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	80,474,361	114,009	598,815	7,230,673		88,417,858
Inter-segment revenue	–	(30,089)	(135,493)	(6,334,091)		(6,499,673)
Revenue	80,474,361	83,920	463,322	896,582		61,918,185
Segment results	15,964,604	4,344,262	(130,33[illegible])	(252,174)	(112)	19,926,250
Finance income						448,598
Profit before income tax						20,374,848
Income tax expenses						(8,590,221)
Profit for the year						11,784,627
Depreciation and amortisation	90,849	–	5,203	252,183	–	348,235
Fair value gains on investment properties	–	4,235,953	–	–	–	4,235,953

FRADULENT ACCOUNTING #4: Evergrande's investment property portfolio is overstated by at least RMB 10bn, equal to one-third of its book value. We triangulate on the amount of overstatement of Evergrande's investment portfolio by using two separate methods: 1] market valuation method (outlined on page 21) and 2] balance sheet method (outlined on page 22 and 23. Both methods support that Evergrande's investment property portfolio requires at least a RMB 10bn write-down.

Evergrande earns less than <1.0% gross rental yield on its investment portfolio, which suggests that Evergrande's "market" appraisal of its investment property is wildly overstated. Assuming a 2% gross rental yield would imply that Evergrande's investment property is worth 4.2bn, 71% less than its stated value. In other words, Evergrande's investment portfolio properties are overstated by at least RMB 10bn.

Valuation estimate of Evergrande's investment property

in RMB mm		2009	2010	2011
	Rental yields on Evergrande's investment property			
N	Reported gross rental income	37.6	51.2	83.9
	Value of investment portfolio per balance sheet			
	Beginning balance	1,741	3,131	10,117
	Ending balance	3,131	10,117	18,919
O	Average value	2,436	6,624	14,518
P = N/O	Implied gross rental yield	**1.54%**	**0.77%**	**0.58%**
	Implied avg. market values of Evergrande's investment property assuming:			
Q = N / 0.02	@2% gross rental yield [1]	1,880	2,559	4,196
R = Q / O -1	% discount vs. reported book value of investment property	-23%	-61%	-71%
	Write-down of investment property value required			
S = O - Q	@2% gross rental yield	**556**	**4,065**	**10,322**
K	Reported book value of shareholders' equity	12,861	20,635	32,687
T = S / K	Investment portfolio write down as % of book value	4%	20%	32%

Source: company filings

A RMB 10bn write down is required assuming 2% annual gross rental yield

Note: HKFRS accounting standards allow Evergrande to mark its assets to "market". Note that Evergrande has received massive income instatement benefits by marking its "investment" properties to fantasy values and then passing those gains through its P&L. Since January 2006, Evergrande has recognized RMB 9.5bn on of phantom accounting profits on its income statement by marking up its "investment" portfolio.

1] During 2011, CR Land, Shimao generated annual gross rental yields on commercial properties of 7.1% and 2.7% respectively. Conservatively, the analysis above assumes a 2% annual gross rental yield.

FRADULENT ACCOUNTING #4 (continued):Despite low yielding, the investment property has been marked up significantly since 2006, creating RMB 9.5bn phantom accounting profits on its income statement and RMB 9.5bn phantom book value.

To date, Evergrande has recorded RMB 9.5bn of mark-to-market on its investment property, representing 29% of Evergrande's reported shareholders' equity as of December 31, 2011. **Evergrande simply says that it had an appraiser using a combination of valuation methods to determine the value of the portfolio** and no specific details are disclosed regarding how these gains were achieved.

Mark-to-market gains on investment property

in RMB bn	2008	2009	2010	2011
Balance sheet value of investment property				
Cumulative cost basis of investment property	0.7	1.3	4.9	9.5
Cumulative mark to market gains on investment property	1.0	1.9	5.2	9.5
Total balance sheet value of investment property	1.7	3.1	10.1	18.9
Cumulative mark to market gains on investment property	1.0	1.9	5.2	9.5
Book value of shareholders' equity at year end	8.3	12.9	20.6	32.7
% of book value of shareholders' equity	13%	15%	25%	29%
Mark to market gain during the year	0.1	0.8	3.4	4.2
Reported operating profits	0.8	1.3	13.8	19.9
% of reported operating profits	9%	67%	24%	21%

Note cumulative mark to market gains started from 2006
Source: company filings

No details were disclosed regarding how those mark-to-market gains were achieved
Page 113, 2011 annual report

The fair values of the Group's investment properties as at 31 December 2011 were assessed by CB Richard Ellis Limited, an independent qualified valuer. Valuations were based on either: (i) capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows; or (ii) on direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession by making reference to comparable sales transactions as available in the relevant market; or (iii) residual method of valuation which is common in valuing development sites by establishing the market value of the properties on an "as-if" completed basis with appropriate deduction on construction costs, professional fees and interest payments to be incurred as well as developer's profits. The resultant figures are adjusted back to present values to reflect the existing state of the properties on balance sheet date.

FRADULENT ACCOUNTING #4 (continued): Our analysis also reveals that Evergrande underreported its development cost of RMB 4bn by capitalizing costs onto its balance sheet as investment property.

Our analysis indicates that Evergrande is understating the development costs for its property business by capitalizing costs onto its balance sheet as investment property. We estimate that Evergrande's investment properties have a balance sheet cost basis of RMB 7,335 per square meter. In contrast, we estimate that Evergrande's development cost for non-investment property is RMB 4,260 per square meter. **<u>This disparity is highly unlikely</u>**. We conclude that Evergrande is allocating development costs related to unsold parking spaces of its residential projects to its balance sheet and classifying them as investment properties. In doing so, Evergrande is artificially inflating its balance sheet assets to the tune of **<u>RMB 4bn.</u>**

Underreporting developing costs				
in RMB bn, unless indicated otherwise		2009	2010	2011
	Evergrande's investment property portfolio			
A	Cumulative cost basis of investment property	1.3	4.9	9.5
B	Commercial property (in square meters)	95,180	347,141	490,756
C	# of parking spaces	10,352	34,242	79,818
D	Estimated square meters per parking space [1]	10	10	10
E = C × D	Total parking space (in square meters)	103,520	342,420	798,180
F = B + E	Total investment property (in square meters)	198,700	689,561	1,288,936
	Impact of under-reporting of development costs			
G = A / F * 1bn	Implied cost per sqm for investment property (in RMB)	6,309	7,089	7,335
H	Revenue delivered per square meter (RMB per sqm)	5,724	5,572	6,385
I	Reported gross margin [2]	*34.0%*	*29.2%*	*33.3%*
J = H × (1 - I)	Estimated of delivered cost per sqm for residential projects (in RMB)	3,777	3,946	4,260
K= G- J	Cost difference between investment property and residential property (in RMB)	2,532	3,144	3,075
F	Total square meters of investment portfolio	198,700	689,561	1,288,936
J = K × F / 1bn	**Underreporting of development cost**	**0.5**	**2.2**	**4.0**
	% of book value of shareholders' equity	*4%*	*11%*	*12%*

1] Assumes 10 square meter per parking space
2] Applies blended gross margin

FRADULENT ACCOUNTING #5: Evergrande is underreporting the cost of land by capitalizing land expenses onto its balance sheet. We estimate a **RMB 6bn** write down is required.

Using Evergrande's reported land reserve data, one can calculate how much land expenses Evergrande is expensing during a given period. In 1H 2011, Evergrande's land cost data suggested **negative RMB 115** per square meter vs. estimated land cost of RMB 520 per square meter, which implies understatement of RMB 635 per square meter. Evergrande delivered 10mm square meters during 1H 2011. Therefore we estimate that Evergrande underreported land expenses by RMB 6bn.

Evergrande's underreporting of cost of land reserve

Formula		1H 2010	2H 2010	1H 2011	2010
	Land reserve (in millions of square meters)				
A	Beginning (given)	55	72	96	55
B	+ Addition (given)	22	29	49	51
C = D - B - A	- Transferred / Sold Land	(5)	(5)	(10)	(10)
D	Ending (given)	72	96	135	96
	Average cost of land reserve per square meter (in RMB)				
E	Beginning (given)	452	519	520	452
F	+ Addition (given)	738	579	664	648
G = K × 1000 / C	- Transferred / Sold Land	764	828	(115)	798
H	Ending (given)	519	520	617	520
	Total cost of land reserve (in RMB bn)				
I = A × E / 1000	Beginning (given)	25	38	50	25
J = B × F / 1000	+ Addition (given)	16	17	33	33
K = L - I - J	- Transferred / Sold Land	(4)	(4)	1	(8)
L = D × H / 1000	Ending (given)	38	50	84	50
	Estimation of land cost underreporting during 1H 2011				
G	Implied average cost of land reserve per square meter for sold land			(115)	
M	Per square meter actual cost of land reserve at the beginning of 1H 2011			520	
N = M - G	Per square meter underreporting of land cost			635	
C	Square meter delivered (in millions of square meters)			(10)	
O = N × C / 1000	Estimated underreporting of cost of land reserve in 1H 2011 (in RMB bn)			(6)	

Source: Evergrande's 2009 annual report, 2010 annual report, 2010 interim report and 2011 interim report

FRADULENT ACCOUNTING #6: Evergrande's A/R associated with "other revenue" is materially overstated. In its June 2011 interim report, Evergrande reported an increase in A/R in its other segment that is impossible to explain relative to the segment's reported revenue. We estimate that other A/R requires a RMB 2.8bn write down.

A/R at December 31, 2010 was suspicious and movement at June 30, 2011 is beyond suspicious. Absolutely days is beyond reasonable and the fact that the increase in "other" A/R exceeded "other" revenue is **impossible**. One possible explanation could be that Evergrande lent money to someone (perhaps its Chairman) and booked the loan as a receivable without properly disclosing it.

Estimate of A/R write-down				
in RMB bn		6M ended		Increase from
Receivables	12/31/2010	6/30/2011	12/31/2011	12/31/10 to 6/30/11
Trade (related to property development)	0.9	1.9	2.8	0.9
Other	1.2	2.2	3.0	1.1
Total	2.1	4.1	5.8	2.0
Revenue				
Property development	25.1	31.7	28.8	
Other	0.3	0.4	1.1	
Total	25.4	32.1	29.9	
Receivable days				
Property development	7	11	17	
Other	624	1,126	509	
Total	15	23	35	
Write-down estimate				
Other revenue	0.3	0.4	1.1	
Assumed A/R days	30	30	30	
Implied A/R	0.1	0.1	0.2	
Reported A/R for "Other" segment	1.2	2.2	3.0	
Estimated A/R for "Other" segment assuming 30 A/R days	0.1	0.1	0.2	
Estimated write-down	1.1	2.2	2.8	

Other A/R exceeded Other revenue is impossible!

A/ R days skyrocketed to three years!

If A/ R days were a more reasonable 30 days, Evergrande would need to take a write down of RMB 2.8bn

China Ministry of Finance has also found evidence of material accounting fraud at Evergrande. [1]

- On October 11, 2011, China Ministry of Finance (MOF) announced that Evergrande would be fined for providing accurate financial statements. [1]
- MOF concluded that Evergrande failed to consolidate 57 subsidiaries in its financial statements and provided inaccurate information on RMB 6.4bn of assets in its 2009 financial report, overstated costs and unpaid taxes. It also reported findings that Evergrande under-booked allowances related to bad receivables. The "error" accounted for >10% of Evergrande's reported assets of RMB 63bn and >50% of Evergrande's reported equity of RMB 13bn at December 31, 2009.
- MOF stated "some property developers have the problem of reporting inaccurate revenue figures, overstating costs and delaying or underpaying taxes".
- As outlined in this presentation, out analysis shows that MOF is on the right track, but that has barely scratched the surface.
- Meanwhile, Evergrande's auditor PricewaterhouseCoopers (HK office) has continued to provide an unqualified opinion.[2]

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2012

1] http://jdjc.mof.gov.cn/zhengwuxinxi/jianchagonggao/201110/t20111011_598596.html
2] page 78, Evergrande 2011 annual report

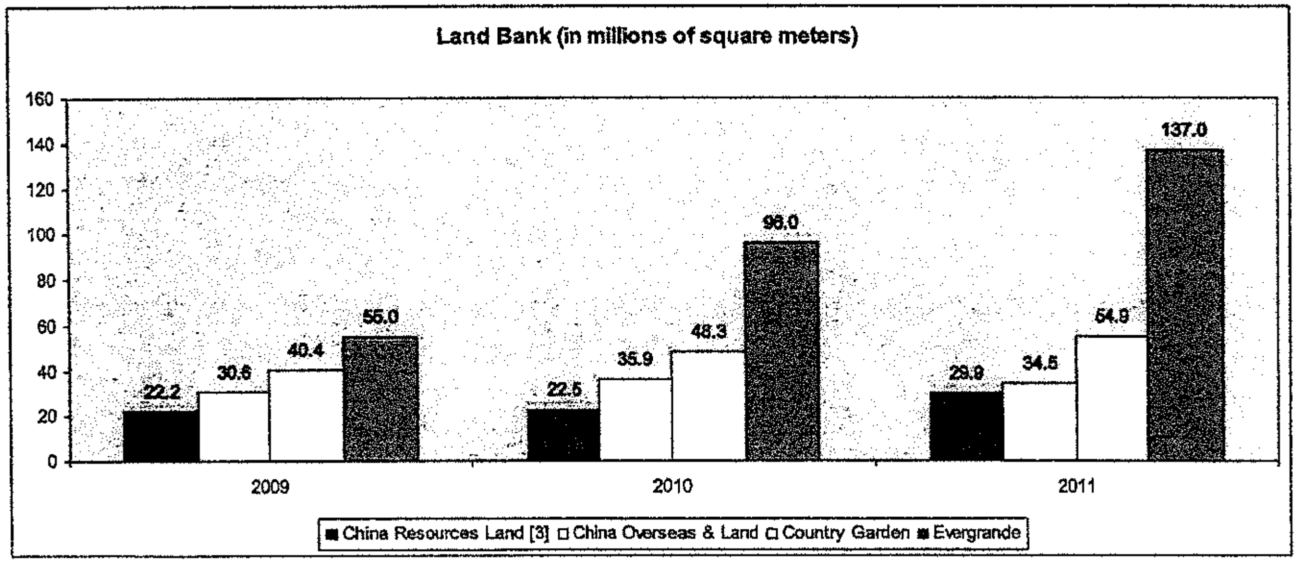
Section 2: Bribes, Illegally Procured Land Rights and Severe Idle Land Liabilities

Evergrande acquired its vast land inventory in China at a deep discount to prevailing market prices by paying bribes to local officials. Evergrande's bribing schemes are coming to light, and precedent indicates that the central government will force Evergrande to return illegally obtained land. In addition, the central government is beginning to enforce idle laws. Evergrande risks huge fines and the loss of the vast majority of its land inventory if the government continues to enforce these laws.

The growth trajectory of Evergrande's land bank is shocking, both relative to Evergrande's stated business plan at IPO and relative to Evergrande's peer group.

- At the time of IPO, Evergrande held 51.2mm square meters of land reserves, the largest among all property developers in China
  - "We believe the size of our current land reserves can satisfy our development needs for the next three to five years..." [1]
  - "...we plan to maintain our land reserves at approximately 50 million square meters on a rolling basis" [2]

- Contrary to its statement in the IPO prospectus, Evergrande has continued to aggressively accumulate land reserves. The Company now controls 137mm square meters, which is more than that owned by three of China's largest developers combined. 137mm square meters is almost 3x that amount of land required to support Evergrande's stated growth strategy at IPO.



1] page 157, IPO prospectus
2] page 162, IPO prospectus
3] As of March 23, 2011 for 2010 land bank and March 7, 2012 for 2011 land bank

Evergrande's financial reports indicate that it has acquired its vast and growing land bank at an inconceivable 67% discount to the price at which its peer group has acquired land.

China is a hyper-competitive real estate market in which there are over 10,000 state-backed and private real estate developers competing for land to develop. In a commoditized marketplace, we find it inconceivable that the largest volume purchaser can amass its land bank at a 67% discount to its peer group.

- During 2011, 5 of China's largest property developers excluding Evergrande acquired a total of 34.9 million square meters of land reserves at a weighted average cost of RMB 2,022 per square meter.

- Evergrande alone acquired 137million square meters during this time, more than the total land reserve acquired by its peer group. Despite Evergrande's oversized purchases, its weighted-average cost per square meter was only RMB 667, less than one-third of the reported cost of its peers.

Land reserve cost benchmark with major Chinese property developers

	Greentown	Shimao	Vanke	Longfor	CR Land [1]	Total	Evergrande	Evergrande vs peers
Ending land bank (million square meters) as of 12/31/2011	41.0	39.5	35.5	33.8	29.9	179.6	137.0	76%
Total GFA of new land acquisitions (millions square meters) during 2011	6.8	4.6	9.2	4.8	9.4	34.9	40.8	1.2X
Cost of new land acquired (RMB per square meter)	1,626	1,212	2,707	1,950	2,074	2,022	667	-67%

Source: company filings
[1] As of March 7, 2012

Financial statements analysis indicate that Evergrande bribes local officials to secure land at below market prices.

- In the notes to its financial statements for the year ended 12/31/2011, Evergrande reports that it incurred RMB 470mm (US$73mm) of "expenses not deductible for tax purpose". In note B, Evergrande describe these expenses as being related to "the cost of land premium **<u>without official invoices</u>**".

- Our research suggests that these non-deductible, non-invoicable expenses are bribes that Evergrande pays to local government officials. Once bribed, local officials bypass central government land use permitting procedures and allow Evergrande to purchase land at discounted prices either directly from farmers or in rigged auctions.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the group entities as follows:

	Year ended 31 December	
	[illegible]	2010
	[illegible]	RMB'000
Profit before income tax	[illegible]	14,092,711
Calculated at PRC corporate income tax rate	[illegible]	3,598,453
PRC land appreciation tax deductible for PRC corporate income tax purposes	[illegible]	(665,265)
[illegible] subject to tax (note (a))	[illegible]	[illegible]
Expenses not deductible for tax purposes (note (b))	[illegible]	346,242
Tax [illegible] for which no deferred income tax asset was recognised	[illegible]	[illegible]
PRC corporate income tax	[illegible]	3,330,831
Withholding tax on profit to be distributed from PRC subsidiaries	[illegible]	76,146
PRC land appreciation tax	[illegible]	2,661,058
	[illegible]	6,068,035

(a) Income not subject to tax for the year ended 31 December 2011 mainly comprised the exchange gain recognised for the senior notes in the Company (note 25) and penalty income (note 21).

(b) Expenses not deductible for tax purpose for the year ended 31 December 2011 mainly comprised the cost of land premium without official invoices and interests incurred by offshore group companies.

1] page 134, Evergrande 2011 annual report

Evergrande says that expenses not deductible for tax purposes mainly comprised of "the cost of land premium without official invoices" (aka, bribes). In 2011, Evergrande incurred RMB 470mm (US $73mm) of such expenses.

CAST STUDY #1: Evergrande's *Oasis* project in Shenyang City

In Shenyang, Evergrande acquired land restricted for commercial use (violation #1), then sat on it for longer than what was allowed by law (violation #2), began construction without proper approvals (violation #3) and then pulled a bait-and-switch on buyers (violation #4). Despite multiple violations and protests that become violent, Evergrande faced no sanctions from local officials.

- Evergrande purchased land in Shenyang City for its Evergrande Oasis project in May 2007. The land was located 70 meters from a flood-alleviating dam. National rules require that commercial developments are located at last 200 meters away from dams. [1] [2]
- After sitting on the land for three years, Evergrande started project construction in July 2010. Three years exceeds allowable idle land limits for two years. Despite national laws that allow the government to take back idle without compensation, Evergrande was able to keep the land without penalty. [1] [2]
- The Chinese media reported local residents complained that Evergrande obtained the license to purchase the land in direct violation of the law and let it sit idle without facing any pressure from the government to develop the land.[1] [2]
- In July 2010, Evergrande started construction without obtaining proper pre-construction approvals. Evergrande hired security guards engaged in physical contact with local residents protesting the development. [1] [2]
- In August 2011, Liaoning TV reported buyers were complaining that Evergrande pulled a bait-and-switch, receiving finished property designed substantially different than what was initially promised. [3]

Note: Shenyang city is located in Liaoning province which accounts for 11% of Evergrande's land bank at 2H 2011. Source, page 25 of 2011 annual report
1] http://bbs.gz.house.163.com/bbs/rights/214999251.html (English translation of Chinese media)
2) http://www.tianya.cn/publicforum/content/no06/1/184550.shtml (English translation of Chinese media)
3] http://www.tudou.com/programs/view/-hMLWYM7ahQ/ (English translation of Chinese media)

CAST STUDY #1 (continued): Evergrande's *Oasis* project in Shenyang City

As illustrated in the pictures below, Evergrande's illicit collaboration with local officials in Shenyang resulted in violent protests. Local media took these pictures on May 5, 2011. [1]

Evergrande-hired security personnel

Protestors attacked by Evergrande security personnel

1] http://www.tianya.cn/publicforum/content/no06/1/184550.shtml

CAST STUDY #2: Evergrande's *Metropolis and Venice* projects in Qidong

Evergrande acquired restricted ocean front land in Qidong at a below market price without facing competition from other developers. Also, our research shows that local government officials assisted Evergrande in illegally acquiring the land.

- Evergrande's Qidong project near Shanghai was a cornerstone of Evergrande's 2009 IPO pitch, accounting for 29% of Evergrande's property under development. [1]
- Furthermore, Evergrande's land use rights in China in Qidong served as collateral for Evergrande November 2007 Structured Senior Loan. [2]
- Between 2006 to 2007, with the help of "bought" local government officials, Evergrande acquired 5.98mm square meters (598 hectares) of marine land in Qidong. Evergrande's IPO prospectus indicates that Evergrande paid RMB 300 per square meter (US$280mm or US4$ per square foot). [3]
- In China, purchases of oceanfront land exceeding 50 hectares require central government approval. In order to evade central government scrutiny, local government officials assisted Evergrande in dividing the parcel into 13 smaller parcels (each < 50 hectares), which were then purchased by 13 Evergrande's controlled companies [4]
- Further, regulation in China prohibit the commercialization of marine land. In order to commercialize the project, local officials helped Evergrande illegally convert the "ocean certificate" to land use rights.
- Evergrande has touted that Qidong pre-sales will begin in June 2012. There is substantial risk that this land will be returned to the local government and that Evergrande will be forced to forfeit its investment. [5]

Note: Qidong is located in Jiangsu province which accounts for 10.9% of Evergrande's land reserve at 2H 2011. Source: page 25, 2011 annual report
1] page 8, IPO prospectus
2] page 48, IPO prospectus
3] page IV-215, IPO prospectus. Bullet 3, sub-bullet iv states that land premium shall be paid in the standard price within RMB 200,000 per mu (1 mu = 667 square meters; Qidong = 8967 mu or 5.98mm square meters. RMB 200k per mu = RMB 300 per square meter
4] http://blog.sina.com.cn/s/blog_5fbff8240100w49x.html
5] http://news.hexun.com/2012-01-17/137322707.html

CAST STUDY #3: Evergrande's *Shanshui City* project in Chengdu

As government pressure on illegal land use rises, Evergrande's illegal land use scheme is beginning to come undone.

- In China, sales of large tracts of land require central government approval. In January 2010, the country government of Dayi changed the purpose of land intended for sale without proper approvals. Similar to the scam in Qidong, Evergrande conspired with local officials to divide the large tract into 2 parcels, each small enough to circumvent the law. [1]
- In February and July 2010, the country government of Dayi transferred 1.8mm square meters of land to Evergrande. [2]
- Evergrande reportedly paid RMB 435 per square meter and RMB 510 per square meter, respectively for the land it acquired at auction on February 5, 2010 and July 22, 2010. Incredibly, three similar plots sold in July 22, 2010 auction for RMB 1,360 per square meter. Evergrande has exploited the rigged system as a standard business practice. [1]
- Also incredibly, Evergrande began building on the site in late 2009 well before it formally won the land at auction in February and July 2010. [2]
- In some cases, local residents were forcibly evicted from their homes, which were demolished to give Evergrande access to the land.
- **The Former Secretary of the local Communist Party, Fu Lijian, who spearheaded the project, was taken into custody in late 2010 for allegedly accepting bribes in exchange for structuring land deals. [2]**
- On January 12, 2011, China's Ministry of Land and Resources reported that land for Evergrande's project in Chengdu was projected to Evergrande illegally. [3]
- Project construction has now been ceased by China's Ministry of Land and Resources, and local press has reported that Evergrande is returning the land to the local government. [4]

Note: Chengdu is located in Sichuan province which accounts for 6.2% of Evergrande's land reserve at 2H-11. Source: page 25, 2011 annual report
1] http://hk.jrj.com.cn/2012/01/19082812092613.shtml
2] http://www.skyscrapercity.com/showthread.php?p=83222798
3] http://finance.qq.com/a/20120117/007824.htm
4] http://www.cb.com.cn/1634427/20120517/375251.html

CAST STUDY #4: Evergrande's *Splendor* project in Pengshan

An inspection team from the central government concluded that Evergrande engaged in illegal land use activity in Pengshan.

- On October 15, 2011, a Chinese newspaper reported that the local government in Pengshan helped Evergrande illegally obtain 5,570mu (3.7 million square meters) of a farmland in the years prior to 2008. [1]

- According to the newspaper report, in February 2008, an inspection team from the central government investigated Evergrande's illegal land use in Pengshan. [1]
  - After concluding that Evergrande was engaged in illegal activity in Pengshan, the inspection team imposed what sounded like severe penalties on Evergrande. It forced Evergrande to: (1) cease construction of the project; (2) return obtained land use certificates, and (3) returned unused land to rural peasants.
  - However, the local government in Pengshan ignored the central government's presentation, allowing Evergrande to avoid the penalties imposed by the central government. Amazingly, Evergrande continued to build and sell the project.

Note: Pengshan is located in Sichuan which accounts for 6.2% of Evergrande's land reserve as of 2H 2011. Source: page 25, 2011 annual report
1] http://www.northnews.cn/2011/1015/525057.shtml

CAST STUDY #5: Evergrande's *Splendor* project in Ezhou

New investigations into more of Evergrande's illegal land schemes are underway.

- On October 10, 2011, a Chinese newspaper reported that Evergrande was engaged in illegal land use for a project in Ezhou. [1]
- The project in Ezhou is intended to be the largest high-end holiday resort in central China, covering 1.3mm square meters of land with designated gross floor area equal to 9mm square meters.
- According to local residents, Evergrande had been accumulating the farmland from local peasants since 2007.
- Local authorities have indicated that an investigation by the Wuhan Bureau of State Land Supervision is underway.

Note: Ezhou is located in Hubei province which accounts for 3.4% of Evergrande's land reserves at 2H 2011. Source: page 25, 2011 annual report
1] http://djckb.com/observe/o2/2011/1011/20847.html (English translation of Chinese media)
2) http://baoliao.chuhoi.com/bl/2012-05-08/53857.html (English translation of Chinese media)

The Ministry of Land Resources has consistently required companies involved in illegal land use schemes to forfeit properties and all associated PP&E.

- In 2008, the Chinese government determined that state-backed China Overseas Land (COLI) engaged in illegal activity at its Chongqing project. In conjunction with its settlement, COLI returned the newly built project totaling 2 million square meters to the government and paid a RMB 4 million fine. [1]

- In 2008, Country Garden illegally developed a piece of land in Anhui province. In conjunction with its settlement, Country Garden returned underdeveloped land to the Ministry of Land Resources and ceased construction. [1]

- In September 2011, state-backed Vanke faced punishment for illegal activity at a project in Hebei province. The central government halted Vanke's project. The units that were sold were returned to Vanke. Vanke was required to pay buyers compensation equal to 8% of the house value. [1]

- In 2010, property developer Sanxia Hongming illegally built a villa and golf course project on a piece of land in Yichang City in direct violation of a government policy prohibiting such development. For the villas that had already been sold, the government imposed a fine equal to 10% of construction cost. For the villas that were under construction or completed but had not yet been sold, the government suspended pre-sales. The government also reclaimed the illegally acquired land, and destroyed the buildings. A RMB 1.9mm fine was imposed. [2]

- In June 2010, the Guangdong government issued a press release in conjunction with an illegal land use case. According to the press release, since 2007 the local government of Qingxin had illegally aided two industrial projects obtaining 8,973mu of land. The Guangdong government fired the party secretary of Qingxin. It required the offending companies to forfeit all related buildings and pay fines equal to RMB 9.3mm. [3]

1] http://finance.qq.com/a/20120119/001045.htm (English translation of Chinese media)
2] http://www.sc.xinhuanet.com/content/2011-04/18/content_22547756.htm (English translation of Chinese media)
3] http://zsda.gov.cn/plus/view.php?aid=265385 (English translation of Chinese media)

Evergrande has invested RMB 84bn to build its current land bank. Renewed enforcement of idle land rules add risk to Evergrande on top of risks associated with illegal land acquisition and use schemes.

While idle land policies have been in place in China for years, they have not been enforced consistently. For example, despite owning more than 17 years of land inventory, Evergrande makes no mention of China's idle land policies in its 2010 annual report.

- On December 21, 2011, the Ministry of Land and Resources (MOLR) announced new rules that indicate a desire for increased and more consistent enforcement. [1] The new rules indicate that:
  - Developers will incur a penalty equal to 20% of the purchase price on land that sits idle for 1 year after purchase; and
  - After 2 years, the government may reclaim the unused land **without compensation.**
- Evergrande is the most at-risk developer in China if MOLR begins to enforce idle land laws. The Company can not afford the year 1 fines on idle land and would be at significant risk of losing its land bank in its entirety:
  - Evergrande has spent RMB 84bn to acquire 137mm square meters of land use rights at an average cost of RMB 616 per square meter.[2]
  - Using delivered gross floor area of projects as a proxy for the are of delivered land, Evergrande is sitting on 17 years of land inventory (137 million square meters of land bank / 8.1 million square meters of delivered land). [3]
  - We estimate that 77% of Evergrande's land bank is idle. [4]
- We estimate that Evergrande would face fines of RMB 13bn if year 1 idle land fine laws were applied, equating to 40% of Evergrande's equity at December 31, 2011
  - 77% idle land × RMB 84bn of land premium × 20% penalty = RMB 13bn idle land fine
- Evergrande is in a lose-lose situation. Either eventually spend money it does not have in order to keep the land, or let the land sit idle, incurring year 1 penalties equal to 40% of equity.

1] http://gangtie5.com/views-of-idle-land-disposal-methods-will-be-imposed-20-levy-cost-of-idle-land/
2] page 11, 2011 annual report
3] page 25, 2011 annual report. Evergrande discloses how much aggregate gross floor area it delivers (total condo square meters delivered) in a given period but does not disclose how much land is delivered. On page 15 of its 2011 annual report, Evergrande discloses that it had proposed projects with GFA of 159.5mm on total land reserve of 136.8mm, implying a ratio of delivered GFA to land reserves of 1.17x. During 2011, Evergrande delivered 9.471mm square meters of GFA. Applying the 1.17x ratio to Evergrande's delivered GFA in 2011 implies that Evergrande delivered 8.1mm square meters of land.
4] At December 31, 2011, Evergrande reported GFA under construction of 36.524mm square meters. Applying the 1.17x ratio to Evergrande's GFA under construction of 36.524mm implies that Evergrande's land under development equals to 31.3mm square meters, or 23% of its total land bank of 137mm square meters. It also implies that 77% of total land reserve is idle.

Section 3: Crisis

We have identified 7 red flags that point to severe financial and operational stress at Evergrande. These red flags fall in the following categories: **severe shortfall in collection of cash deposits**, rapidly growing, expensive debt, substantial decline of presales, distressed sales of key assets to related parties, initiation of uneconomic projects to attempt to maintain pre-sales, steep declines in contract sales and heavy discounting.

CRISIS RED FLAG #1: While Evergrande has self-reported a 146% increase in contracted sales in the first six months of 2011, customer cash deposits have remained flat.

Based on Evergrande's working capital cycle (and on the working capital cycles of Evergrande's peer group), customer deposits should equal a minimum 83% of annual contracted sales at any give point in time. [1] At June 30, 2011, Evergrande reported a steep rise in contracted sales to RMB 72bn, but no associated increase in customer deposits. This divergence is a material red flag; it suggests that Evergrande is either making up contracted sales or forgetting to collect deposits. We suspect the former.

Contracted sales and customer deposits disconnect

In RMB bn	FY Ending December 31				LTM	
	2008	2009	2010	2011	12/31/2010	6/30/2011
Reported contracted sales	6	30	50	80	50	72
Customer deposits on balance sheet	4	24	24	32	24	24
Deposit to contracted sales ratio	**58%**	**80%**	**48%**	**39%**	**48%**	**34%**

Rapidly growing contract sales

Flat customer deposits

Source: Customer deposit data and contract sales data per Evergrande's financial statements

1] Chinese property developers typically receive cash from property buyers within 1 to 2 months after contract signing. This cash sits on the balance sheet as advance from customers. The timeline between contract signing and property delivery is 12+ months. Given the leg between contract signing and payment, the implication is that customer deposits should at a minimum equal to 10/12th or 83% of the contract sales that occurred during the previous 12 months. Evergrande reported RMB 72bn of contracted sales during the trailing 12 months ended June 30,2011. If the 83% ratio were to apply, customer deposits should have equaled RMB 60bn at mid-year 2011, yet Evergrande reported customer deposits of RMB24bn.

CRISIS RED FLAG #2: While Evergrande shamelessly touts its "Cash Is King" fiscal policy, its debt balances continue to explode. Evergrande is overleveraged and the Company has no margin for error.

Evergrande continues to hemorrhage cash despite showing huge growth in reported revenues and profitability. Since December 31, 2008, total reported debt has exploded from RMB 15bn to RMB 95bn. As outlined earlier, Evergrande's off-balance sheet debt is at least RMB 23bn, bringing total on-and-off-balance sheet debt at 12/31/2011 to RMB 118bn. Even if Evergrande's assets were not overstated, its ratio of debt to equity would be 291%.

Debt summary					
In RMB bn	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**	
Borrowings	10.4	14.2	31.2	51.7	
Customer advances	3.5	24.3	24.1	31.6	
Deferred income tax liabilities	0.5	0.6	1.5	2.9	
Current income tax liabilities	0.9	1.0	4.6	8.8	
Total debt	**15.3**	**40.1**	**61.3**	**95.0**	Debt is exploding
Equity (excluding minority interest)	8.3	12.9	20.6	32.7	
Ratio of Debt to Equity	1.85x	3.12x	2.97x	2.91x	291% debt to equity
Cashflow summary					
Net cash used in operating activities	(5.2)	2.2	(11.7)	(3.7)	Negative cash flows
Net cash used in investing activities	(0.1)	(0.1)	(0.8)	(10.2)	
Net cash generated from financing activities	4.5	4.5	17.6	21.8	

Source: Financial data per Evergrande filings. Note that customer advances are counted as debt since cash has been received but products have not been delivered.

CRISIS RED FLAG #3: Evergrande's liquidity position is so bad that it resorted to borrowing RMB 6.7bn from the trust industry during 2011.

The trust industry in China makes secured loans to the real estate market at a cost of **20% to 30%** per annum. Despite claiming ample cash balances and access to cheap, unused bank credit lines, Evergrande borrowed RMB 6.7bn from the trust industry during 2011. This move, which would be completely irrational for a any company not facing a liquidity crisis, is a glaring red flag. It highlights not only Evergrande's desperation, but also its shameless dishonesty.

17 Borrowings

	Group 31 December 2011 RMB'000	Group 31 December 2010 RMB'000
Borrowings included in non-current liabilities:		
Bank borrowings—secured	26,395,529	19,897,200
Senior notes	17,432,108	8,750,254
—Senior notes issued in 2010 ("2010 Senior Notes") (note (a))	8,348,988	8,750,254
—Senior notes issued in 2011 ("2011 Senior Notes") (note (b))	9,083,120	–
Other borrowings—secured (note (c))	6,681,561	1,284,280
	50,509,198	29,931,734
Less: current portion of non-current borrowings	(9,010,478)	(5,771,710)
	41,498,720	24,160,024
Borrowings included in current liabilities:		
Bank borrowings—secured	817,000	1,036,500
Current portion of non-current borrowings	9,010,478	5,771,710
Other borrowings—secured (note (c))	400,512	191,900
	10,227,990	7,000,110

(c) Other borrowings

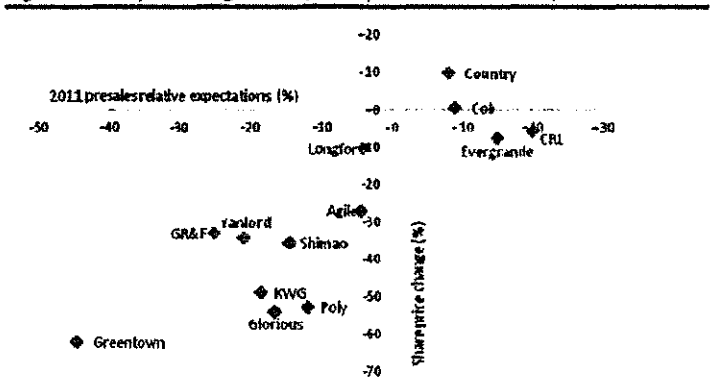
During the current year, certain group companies in the PRC which are engaged in development of real estate projects have entered into fund arrangements with certain financial institutions (the "Trustees"), respectively pursuant to which Trustees raised trust funds and injected the funds to the group company. All the funds bear fixed interest rates, have fixed repayment terms, and are secured by the properties under development of the group companies or the shares of certain group companies. The net assets of these shares as at 31 December 2011 were approximately RMB7,507,026,000 (31 December 2010: Nil).

Source: page 123 and 124, Evergrande's 2011 annual report

CRISIS RED FLAG #4: Evergrande management has incentives to fabricate presales. Investors need to treat these numbers with big caution as they are unaudited and cannot be directly reconciled with audited financial statements. Even assuming accurate reporting, Evergrande has 2012 Jan-Apr presales down more than other major Chinese property developers listed in HK.

- **Evergrande management has incentive to fabricate presales.** Presales are probably the most closely watched leading indicator for property developers, much like monthly subscriber releases were during the dotcom bubble. Therefore, share prices of real estate developers are sensitive to presale numbers and Evergrande knows this!
- The chart below compiled by Forensic Asia shows that, those companies which met their expectations in 2011 or came close to them, had the best share price performance such as Country Garden and China Overseas. Those at missed their pre-sales target by the most had the worst share price performance such as Greentown. [1]
- Investors need to treat Evergrande's presales with big caution given that they are unaudited and cannot be directly reconciled with audited financial statements.
- Even assuming Evergrande didn't fabricate numbers as our bull case, the Company has reported the biggest yoy decline of YTD presales (Jan-Apr) among 11 major Chinese property developers listed in HK. [2]

Figure 3: Share price change and reported presales relative to expectations: 2011



Source: Forensic Asia

Figure 2: Hong Kong Listed Chinese Property Developers Presales

Company	Apr-11 (Rmb bn)	YTD (Rmb bn)	Apr-12 (Rmb bn)	YTD (Rmb bn)	YTD (YoY%)	Target (Rmb bn)	Comp' (%)
Agile	2.1	11.5	2.1	8.5	-26	31.0	27
China Overseas	6.7	22.8	9.7	30.9	36	98.4	31
China Resources	1.5	7.5	3.1	11.3	51	31.0	37
Country Garden	2.6	11.9	3.0	9.1	-24	43.0	21
Evergrande	6.2	26.0	8.2	16.5	-37	80.0	21
Greentown China	1.3	11.3	3.1	9.8	-13	40.0	25
Guangzhou R&F	2.6	8.6	2.9	9.5	11	33.0	29
Longfor	3.0	12.9	3.0	9.6	-26	39.0	25
Shimao	2.2	8.5	4.1	11.4	33	33.0	34
Sino-Ocean	1.7	7.5	2.6	5.9	-22	27.0	22
Vanke	7.9	43.4	7.4	38.5	-11	127.0	30
Total	37.8	171.9	49.2	160.9	-6	602.4	27

1] China property: Are presales real?, page 4, Forensic Asia
2] China property: Are presales real?, page 3, Forensic Asia

CRISIS RED FLAG #5: Because of its desperate need to generate pre-sales cash, Evergrande is embarking upon highly unattractive new projects. Evergrande's projects in Yingkou city, where there are 4 houses for every resident family, are an instructive case study.

Yingkou City is located in Liaoning Province, which is Evergrande's largest market in terms of land inventory. Liaoning Province accounts for 11% of Evergrande's land bank. [1]

- Based on local government statistics, we calculate that there already 760K apartment units available or under construction for Yingkou's total population of 560K, or 186K families assuming 3 persons per family. The implication is that there are **already** four houses for every family that resides in Yingkou.[2]

- An official for Yingkou recently indicated in the Chinese language press that there is "serious oversupply of property" in Yingkou.[3]

- Evergrande has three homogenous projects in Yingkou that have similar target markets with total GFA exceeding 1.15 million square meters. Local press reported that Evergrande's sell-through in Yingkou market has been disastrous. Volume is deteriorating rapidly and prices are falling. [3]
  - Evergrande Oasis 恒大绿洲: launched in July 2011 with ASP of c. RMB 5,000 per square meter
  - Evergrande City Phase 1 恒大城: launch was delayed to late October 2011 from August 2011, with ASP of c. RMB 4,000 per square meter, 20% lower than Evergrande Oasis
  - Evergrande River Bay 恒大江湾: opening ASP was RMB 3,600 per square meter and reduced to RMB 3,400 per square meter shortly afterwards

- In a sign of desperation, Evergrande is selling units without finish-out in order to reduce the purchase price and is promoting" Group buying". This syndicated approach to home sales is highly risky; even when desperate, property developers throughout China have historically avoided this clearly speculative approach.

1] Page 25, Evergrande 2011 annual report

2] According to newspaper *Investor China*, the local government of Yingkou disclosed that the stock of completed residential properties at the end of 2011 was estimated to be 48 million square meters. Property under construction amounted to 28 million square meters at the end of November 2011. If no new construction occurs, total supply will equal 76 million square meters. Assuming 100 square meters per unit, implied is that there will be 760K units of supply for 186K families or 4 apartments for every family.

3] http://house.people.com.cn/GB/16885138.html

CRISIS RED FLAG #6: Danyang case study. Evergrande November ASP claims appear bogus in light of 25% discounting at its Danyang project during the same month.

Danyang is a 3rd tier city in East China.

Local media reports indicate that in November 2011, Evergrande cut ASPs from RMB 8,000 per square meter to RMB 6,000 per square meter. Further, Evergrande is now accepting installment payments for sales. [1] [2]

The 25% price cut caused consternation among previous home buyers. On November 23, 2011, over 100 previous home buyers rushed into sales office asking for a refund on their homes or a cash reimbursement equal to the discount.

Angry buyers in Danyang protesting Evergrande price cut [3]

1] http://www.tianya.cn/publicforum/content/free/1/2340225.shtml
2] http://p.pomoho.com/t_hahhainess/17172835
3] http://bbs.my0511.com/redirect.php?fid=152&tid=3644469&goto=nextoldset

CRISIS RED FLAG #7: Evidence in the local Chinese press supports the conclusion that Evergrande's liquidity is drying up.

- On December 14, 2011, Chinese newspaper Hexun reported that an unidentified Evergrande executive indicated that Evergrande headquarters has ordered material delays of new project launches. The executive also indicated that Evergrande has already laid off employees in the construction unit, and has delayed the payment for construction contracts. Furthermore, the executive indicated that Evergrande has plans to lay off 30% of its workforce. [1]

- In September 2011, *21st Century Herald* reported that Evergrande invited select employees to purchase property at a 30% discount. The newspaper indicated that Evergrande was desperately trying to generate liquidity and that many of its promotional activities were considered illegal. [2]
  - The discount was also extended to the general public in the form of "VIP pledge chips" and "bona fide registration" credentials, where Evergrande receives payment or partial payment for the property prior to the formal sales launch. [2] These practices are illegal.
  - Former employees we have interviewed indicate that Evergrande has consistently inflated the sales performance of specific properties to the media in order to lure buyers.

1] http://house.hexun.com/2011-12-14/136281393.html
2] http://qy.ff1.com.cn/news/newsfile/2011-9-8/20119892717_1.html

Section 4: Chairman Hui

Chairman Hui has bogus credentials. He has financed Evergrande utilizing a maze of Ponzi-esque debt deals and under-the-table assets swaps.

Evergrande's founder / Chairman, Hui Ka Yan, who goes by Dr. Hui, is neither a doctor nor a professor.

Chairman Hui refers to himself as Doctor and professor, Mr. Hui "received" an honorary doctorate from the University of West Alabama and does not hold a Ph.D. An interview with Wuhan University of Science and Technology reveals that Hui has never taught a class at the school.

- On Jan 23, 2008, Hui received the World Outstanding Chinese Award, which comes with an honorary degree thrown in from West Alabama , a little heard-of American university.
- The degree is essentially a mail order program that by no means confers any academic qualification.
- Some universities offering the honorary doctorates in conjunction with the Award in recent years are known as "Diploma Mills"
  - 2009: California International University. The institution can <u>only</u> offer a Bachelor of Science in Business Management, and a Master of Science in International Business. [1]
  - 2007: University of New Castle also known as University of Newcastle (in England and in Delaware, United States) is not officially recognized as a degree-granting institution. [2]

Chairman Hui "received" his honorary degree in 2008 [3]

- *First-class Management Team in China*

We have a highly experienced management team comprised of well-regarded experts with an average of over 16 years of relevant experience in real estate development, planning and design, and finance and other fields. The team consists of four members with doctoral degrees and five members with master degree. The team is led by our chairman. Dr. Hui who is a professor in management with Wuhan University of Science and Technology. He is also a member of the Chinese People's Political Consultative Conference and the vice-chairman of the China Real Estate Association. Our chief executive officer, Dr. Xia Haijun, has cumulative experiences of more than 16 years in real estate development and business management.

Evergrande describes its Chairman, Hui Ka Yan, as a doctor and as a professor. Hui is <u>NOT</u> a doctor and does not teach at Wuhan.

Source: Evergrande website, company presentation and Evergrande 2015 Senior Notes Prospectus
1] http://www.cpec.ca.gov/CollegeGuide/Institution.asp?ID=E0136A&bhcp=1
2] http://www.degreediscussion.com/forums/viewtopic.php?f=5&t=7718
3] http://www.dongfangyu.org/?p=3949

Evergrande's financing history reflects one of a Ponzi scheme.

A timeline of Evergrande's rise to prominence shows that Chairman Hui began utilizing Ponzi financing techniques at least as early as 2006. Hui's technique has been to borrow large sums of capital using high IRR guarantees. He subsequently borrows larger sums of capital using even bolder IRR guarantees, and then uses capital from the new loans to pay off the old loans.

- Hui Ka Yan founded Evergrande in 1996.
- Chairman Hui took Evergrande's predecessor company public via a backdoor listing in HK in August 2002. Two years later, he took it private.
- In mid-2006, Hui reorganized Evergrande and incorporated the Company in the Cayman Islands in preparation for an IPO. **Hui took out a US$ 230mm bridge loan from Industrial and Commercial Bank of China to effect Evergrande's reorganization. [1]**
- In November 2006, Hui sold US$ 400mm of convertible preferred stock to Deutsche Bank, Baytree Investments, affiliated with Temasek, and Indopark Holdings, affiliated with Merrill Lynch ("financial investors"). **He used the proceeds to repay the bridge loan. [2]**
- In August 2007, Hui obtained a structured secured loan with an affiliate of Credit Suisse for up to US$ 500mm (L+450bps). **Hui provided a personal guarantee and as well as a minimum annual rate of return of 19.5% to the lenders. [3]**
- In December 2007, the convertible loan was restructured. The financial investors provided Chairman Hui with a new US$400mm loan, which he injected into the company to repay the November 2006 US$ 400mm convertible. Hui served as the obligor for the new loan with Evergrande also providing a guarantee. **Hui offered an incredible minimum guaranteed return to the financial investors (payable in shares) of between 30% and 70% depending on the timing of a future IPO. [4]**

1] page 129, IPO prospectus. http://www.evergrande.com/ir/eng/prospectus.pdf
2] page 128, IPO prospectus
3] page 136, IPO prospectus
4] page 130. IPO prospectus. Minimum return formula: 30% if the IPO occurred before December 2007, 40% if the IPO occurred between January and June 2008; 50% if the IPO occurred between July and December 2008; 60% if the IPO occurred between January 2009 and June 2009; and 70% if the IPO occurred between July 2009 and December 2009

Hui escalated the Ponzi financing scheme in 2008.

- In March 2008, Hui tried to IPO Evergrande in HK, but failed.
- Following the failed IPO, Evergrande faced a severed liquidity crisis. Evergrande defaulted on its August 2007 US$500mm structured secured loan due to: 1]EBITDA being less than 70% of plan; 2]failure to comply with interest coverage ratio; 3] failure to provide audited and unaudited consolidated financial statements of Hui and the Company; 4]borrowing money under the table from banks in violation of covenants; 5]cross-defaults from the restructuring of the US$ 400mm convertible loan with financial investors; and 6]failure to deliver compliance certificates and officer's certificates in compliance with requirements under the loan. [1]
- In June 2008, Hui arranged a US$ 506mm lifeline from equity investors, including Merrill Lynch, Deutsche Bank, Carval Investors(a Kuwaiti Investment firm). Rise Success Holdings (an affiliate of Chow Tai Fook Group), an affiliate of Abu Dhabi Investment Council, among others. **Chairman Hui again provided an incredible minimum return to investors of between 100% and 200%. Hui also offered financial investors an unprecedented personal guarantee to make them whole if they experienced losses on their Evergrande holdings within 12 months following an IPO. [2]**
- In June 2009, Hui's wife bought back the convertible preferred stock that Hui had issued to Deutsche Bank in conjunction with November 2006 US$400mm financing. Mysteriously, she bought back the shares at a 20% discount to Deutsche Bank's initial investment and a substantially greater discount to Hui's personal minimum guarantees. [3]
- In November 2009, Merrill Lynch and Goldman Sachs took Evergrande public at HK$3.50 per share, raising US$722mm. [4]
- In May 2010, Evergrande fell to HK2.00 per share, triggering Hui's June 2008 personal guarantees. However, by November 2010, Hui had been able to pump up Evergrande's share price to HK$4.00, reducing his liability to HK$1.2bn. Our research shows that the magnitude of misstatement in Evergrande's financials grew substantially in 2010 as it faced large and imminent liabilities associated with Evergrande's poor share price performance. [5]
- In November 2010, with the stock at HK$4.00, Hui paid HK$1.2bn (US$155mm) to pre-IPO equity investors: I paid all the money this morning... My personal finances are healthy." [6]

1] page 137, IPO prospectus.
2] page 138-141, IPO prospectus
3] page 142, IPO prospectus
4] http: // online.wsj.com/article/SB125683914492516547.html
5] http://www.thestandard.com.hk/news_detail.asp?sid=28355137&art_id=98591&con_type=1&pp_cat=1
6] http://www.thestandard.com.hk/news_detail.asp?we_cat=2&art_id=104725&sid=30221512&con_type=1&d_str=20101109&fc=2

In addition to debt pyramiding and increasingly bold personal guarantees, Hui utilized highly unorthodox arrangements to secure anchor investors for Evergrande's IPO.

- In late 2008, Hui was struggling to find buyers for Evergrande's IPO. Cheng Yu-tung, Chairman of New World Development and Chow Tai Fook, stepped up as a cornerstone investor in Evergrande's IPO, agreeing to invest US$ 50mm. Explicit financial support from the HK billionaire was critical in pulling off the IPO. [1]
- Less than 12 months later, Hui paid HK$400mm (US$51mm) for a 6,000 square foot house on the Peak (C 10 Black's Link) in HK.[2] Hui paid $66,000 per square foot (US$8,601 per square foot), the highest selling price for an individual home in the area. According to a report from property agency Central Property, the average price paid for luxury louses on the Peak in 2010 was HK$40,295 per square foot (US$5,199 per square foot). [3] Hui paid a 65% premium to average prices paid on The Peak; the market value of the house was US$31mm and Hui paid US$51mm. [4]
- Hui bought the property from none other than New World Development.
  - "The transaction was kept as a secret. Hui bought the house through transfer between companies. The market didn't hear about this transaction. It is believed that the buyer dealt with executives of the developer (New World Development) directly. Even the employees of the developer didn't know about it." Said an anonymous real estate agent. [5]

HUI		CHENG
•Hui sells overvalued Evergrande stock ($50mm) •Hui buys overvalued house ($51mm)	→ ←	•Cheng buys overvalued Evergrande stock ($50mm) •Cheng sells overvalued house ($51mm)

1] http://www.chinaeconomicreview.com/node/26155
2] http://www.ichouse.myweb.sg/mw-property-news/2011/5/30340/hk-luxury-homes-draw-china-buyers
3] http://news.eastday.com/c/20110113/u1a5664677.html
4] http://www.chinanews.com/ga/2011/01-13/2784445.shtml
5] http://www.xiaohuxing.com/fangshi/2011-05/8991p3.htm

Section 5: Pet Projects

Chairman Hui's pet projects are comically off-strategy and frighteningly expensive for Evergrande's shareholders. As of December 31, 2011, Chairman Hui has directed at least RMB 16.2bn (US$2.5bn) to support those bizarre, unprofitable ventures

Chairman Hui managements Evergrande as if it is his own, personal Disney World.

As of December 31, 2011, Evergrande has blown RMB 16.2bn on Mr. Hui's various hobbies at the expense of shareholders. The cash flow drain associated with these hobbies has accelerated as Evergrande's core property business has turned south. [1]

- Evergrande owns a men's professional soccer team and a women's professional volleyball team in China. The payroll for Evergrande's soccer team's exceeds US$70mm per year and is 7.0x larger than the average payroll of its peers. [2]
- Evergrande is spending US$110mm to build the largest soccer academy in the world. The facility will have 76 practice soccer fields and boasts that it will train 10,000 students per year.
- Hui has launched an assortment of companies under the Evergrande umbrella in areas that have nothing to do with Evergrande's core business of developing condos. Without conducting significant due diligence on the ground in China, it is impossible for Evergrande shareholders to know what unrelated hobbies they are funding
  - Evergrande Animation Production Company
  - Evergrande Film and TV Company
  - Evergrande Artists Agency
  - Evergrande Record Company
  - Evergrande Cinema Line Company

Segment assets and liabilities as at 31 December 2011 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other businesses RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	154,130,240	18,[illegible]	953,708	16,240,994	(3,316,215)	177,935,357
Unallocated						1,088,051
Total assets						179,023,408

Segment assets and liabilities as at 31 December 2010 are as follows:

	Property development RMB'000	Property investment RMB'000	Property management services RMB'000	Other businesses RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	94,160,717	10,116,643	848,081	[illegible]	(7,753,596)	103,906,930
Unallocated						545,534
Total assets						104,452,464

Other assets were more than doubled from Dec 2010 to Dec 2011:
- At 12/31/2011 – assets of RMB 16.2bn
- At 12/31/2010 – assets of RMB 6.5bn

1] Page 108 of Evergrande 2011 annual report
2] http://www.chinadaily.com.cn/opinion/2011-11/25/content_14164850.htm

Evergrande's two sports teams are hemorrhaging cash.

Evergrande owns a professional men's soccer team and a women's professional volleyball team in China. Evergrande bought the Guangzhou soccer team in 2010 for RMB 100m (US$ 15mm) and has since embarked on a spending spree that would make the New York Yankees blush. [1]

2011 Chinese Super League Budget and Standings

	Budget ($mm)	W	D	L	atches	Pts	Budget per win ($mm)	Budget per pt ($mm)
Guangzhou Evergrande	$ 76.2	20	8	2	30	68	$ 3.8	$ 1.1
Beijing Guo'an	$ 12.2	14	11	5	30	53	$ 0.9	$ 0.2
Liaoning Hongyun	$ 7.6	14	8	8	30	50	$ 0.5	$ 0.2
Jiangsu Shuntian	$ 7.6	14	5	11	30	47	$ 0.5	$ 0.2
Shandong Luneng	$ 22.9	13	8	9	30	47	$ 1.8	$ 0.5
Qingdao Jonoon	$ 9.1	12	9	9	30	45	$ 0.8	$ 0.2
Changchun Yatai	$ 12.2	11	12	7	30	45	$ 1.1	$ 0.3
Hangzhou Lucheng	$ 13.7	10	9	11	30	39	$ 1.4	$ 0.4
Shaanxi Chanba	$ 16.2	10	8	12	30	38	$ 1.5	$ 0.4
Tianjin Teda	$ 13.0	8	13	9	30	37	$ 1.6	$ 0.4
Shanghai Shenhua	$ 12.2	11	4	15	30	37	$ 1.1	$ 0.3
Dalian Shide	$ 7.6	7	11	12	30	32	$ 1.1	$ 0.2
Henan Jianye	$ 12.2	7	11	12	30	32	$ 1.7	$ 0.4
Nanchang Bayi	$ 10.7	8	5	17	30	29	$ 1.3	$ 0.4
Chengdu Blades	$ 6.1	5	12	13	30	27	$ 1.2	$ 0.2
Shenzhen Ruby	$ 6.1	5	8	17	30	23	$ 1.2	$ 0.3
National average ex. Evergrande	$ 11.2						$ 1.2	$ 0.3
Evergrande as a multiple of national average	6.8x						3.2x	3.8x

Note: Standings per http://www.soccerway.com/national/china-pr/csl/2011/regular-season/

Club News [2]

Conca joins Guangzhou Evergrande, makes new transfer record

2011-7-12

Chinese Super League leaders Guangzhou are believed to have smashed the country's transfer record to lure Fluminense midfielder Dario Conca to Asia.

Conca, who has consistently been one of the Brazilian top flight's best players over the past couple of years, has signed a three-and-a-half year deal, according to reports in China.

While no precise figure has been placed on the transfer fee, it is thought Conca stands to earn a remarkable $10.4 million a year, which would see the 28-year-old join the likes of Cristiano Ronaldo and Lionel Messi as one of the world's best paid players.

The Argentine playmaker contributed nine goals and 18 assists in the 2010 Brazilian championship and picked up a host of individual awards for his impressive form, including the Prêmio Craque do Brasileirão - Brazilian Player of the Year - award.

"This is a good offer for the club, and words cannot describe what it represents to Conca. It will allow him and his family financial security in just two and a half years," Fluminense coach Abel Braga said, according to Brazilian website Globoesporte.

"This offer will put him in the top ten highest-paid players in the world. Let us hope that it happens. He is a guy who has completely identified with the club but this is a unique opportunity."

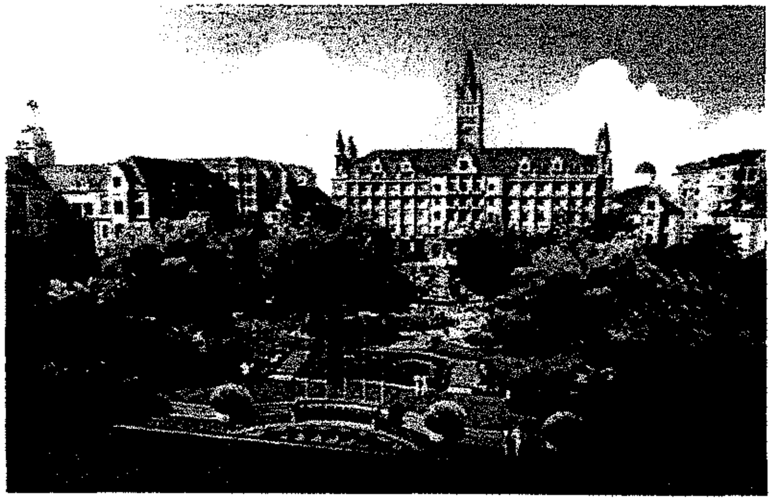
Conca will join fellow South Americans Paulao, Renato Caja and Cleo at Guangzhou, with the latter the previous holder of the Chinese transfer record when he signed earlier this year.

1) http://finance.qq.com/a/20100302/001729.htm
2) http://www.gzevergrandefc.com/show_content.php?id=1273

Evergrande is building the largest football training school in the world, providing full-time boarding and education for up to 10,000 players. The first phase will require and investment equal to RMB 700mm (US$110mm). Evergrande has not disclosed the size of expected annual operating losses for the training facility.

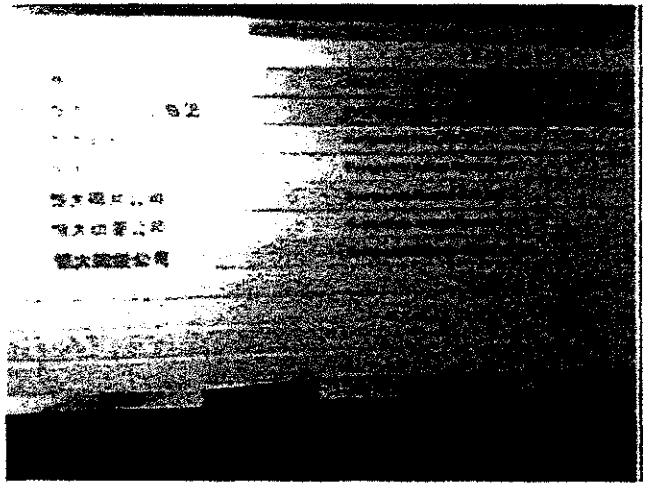
"Professor" Xu Jiayin (aka. Hui Ka Yan) gives the keynote at the signing ceremony [3]

A mock-up of the Evergrande Real Madrid Football Academy [4]



1] http://tech.ifeng.com/gundong/detail_2011_06/26/7255096_0.shtml
2] http://www.evergrande.com/HR/about.aspx
3] http://www.evergrande.com/EN/news/newsinfo.aspx?id=1661
4] http://www.gzevergrandefc.com/show_content.php?id=3238

With its real estate business imploding, Evergrande has branched out into entertainment business. There is no disclosure in Evergrande's filings regarding these business.



- Beijing-based Evergrande Cultural Industry Group encompasses multiple subsidiaries into which Chairman Hui, through Evergrande, has invested RMB 800mm
  - Evergrande Animation Production Company
  - Evergrande Film and TV Company
  - Evergrande Artists Agency
  - Evergrande Record Company
  - Evergrande Cinema Line Company

Note: Photo taken from the elevator at the offices of "Evergrande Cultural Production Group" in Beijing

Recent developments

- On June 11, Evergrande reported contracted sales of RMB 10.37bn, representing a 33% yoy growth. [1]
  - We remain suspicious of any Evergrande's self-reported sales figures that are inconsistent with the amount of customer deposits, as we analyzed on page [40].
  - Even Evergrande reported accurately this time, we believe the rebound of sales is nothing more than a Band-Aid on a hemorrhaging company.

- On June 18, Evergrande paid RMB 1.32 bn for a piece of land in financial district of Guangzhou. The purchase price represents a 170% land premium and an ASP of RMB 33,000 per square meter, almost doubling the previous price record in Guangzhou of RMB 17,000 per square meter. [2]
  - Evergrande is extending themselves out of their comfort zone to commercial real estate, whereby its core business is condo development. We believe that the Company is overpaying for the land. According to Centraline Property, a real estate broker, the sale price of a top office building in Guangzhou merely ranges between RMB 35,000 to RMB 40,000 per square meter. The astonishing purchase price of land in this deal would warrant sluggish economics. [2]
  - As Evergrande's debt exploding, spending money on this land in Guangzhou is as reckless as Chairman Hui's spending on his soccer team
  - One possibility is that Evergrande uses this transaction as a vehicle to mark up the value of its other land reserves.
  - What is also possible is that Evergrande overpaid the local government to create an illusion of robust economy, in exchange for other favors such as additional credit lines.
  - We are not the one that is suspicious of this inflated deal as many local presses have expressed their skepticism.

1] http://news.dichan.sina.com.cn/2012/06/14/510465.html
2] http://6park.com/news/messages/79854.html

Annexure “B”

恒大地產集團®
EVERGRANDE REAL ESTATE GROUP

Evergrande Real Estate Group Limited
恒大地產集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3333)

CLARIFICATION ANNOUNCEMENT

Reference is made to the announcement of the Company published in the early afternoon of 21 June 2012 in relation to the Report. This announcement is made to refute such allegations or comments concerning the Group in the Report.

The Board also noted the recent decreases in the price and the unusual trading volume in the shares of the Company. The Board wishes to note that save as disclosed in this announcement, there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

Reference is made to the announcement of Evergrande Real Estate Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") published in the early afternoon of 21 June 2012 in relation to a report (the "**Report**") issued by Citron Research ("**Citron Research**") alleging that Company has used accounting tricks and bribes to hide the fact that the Company is in fact insolvent. The Company would like to clarify that such allegations in the Report are totally untrue.

The Company has no information on the identity of Citron Research and the management of the Company has no record of being contacted by them before the Report is published. **The Company thus recommends shareholders and investors to exercise extreme caution in reading and using the information in the Report.** The Company is consulting its legal advisers and will consider taking legal actions against Citron Research.

The Report contains certain allegations or comments on the Company, which are groundless and without basis. This announcement is made to refute such allegations or comments concerning the Group in the Report.

ALLEGATIONS OR COMMENTS CONCERNING THE GROUP IN THE REPORT

(1) Section 1 of the Report

The Report alleged the Company of accounting misstatement where the Company is either overstating assets or understating liabilities.

1. The assumptions made in the Report on the accounting treatment of the Company with respect to company acquisition and financing arrangement are groundless.

   It was stated in the Report that the Company utilized off-balance sheet financing to carry out company acquisition and this totally distorts the actual accounting practice of the Group. The Group has consolidated land holding companies acquired by the Company in its financial statements and classified outstanding consideration as payables for land acquisition. With respect to trust financing, the Group has always classified trust financing as liabilities and has not accounted such amount as minority interest. Therefore, the minority interest of RMB2.2 billion reflected in the financial statement of the Company as at 31 December 2011 did not involve any repurchase arrangement.

   At the same time, the commitment on the acquisition of land use rights of RMB21.1 billion as disclosed in the financial statements of the Company as at 31 December 2011 refers to contracted amount which was not required to be reflected as liabilities in the financial statements as the land use rights were yet to obtain. The Report confuses such commitment with the liabilities which should be included in the balance sheet and this totally contradicts with general accounting principle and obviously reveals the lack of accounting knowledge of the author of the Report.

   Therefore, such claim made in the Report that the Company understated liabilities through the so-called joint venture approach is based on a mistaken subjective assumption and the data used are totally inaccurate.

2. The allegation made in the Report that the Company fabricates bank deposit balance is an unjustified accusation towards the motive of the management.

   As at 31 December 2011, the total amount of cash and cash equivalent and restricted cash of the Group was RMB28.2 billion. The Group has implemented comprehensive cash management processes. Based on our understanding, the Company's independent auditor, PricewaterhouseCoopers, has performed validation of controls and circulation of bank confirmations during its audit on the Company's consolidated financial statements for the year ended 31 December 2011 and issued a standard unmodified audit opinion.

The Report adopts a very general approach to analysis the so-called "real" bank balance and this is clearly misleading. The Report simply calculates the average of the opening and closing amounts and does not consider the movement of the bank balance between different months. At the same time, among numerous real estate companies, the Report only uses four of them as reference and has not explained the underlying rationale. The aforementioned clearly reflects the irresponsibility of the author of the Report.

Besides, the bank deposit of the Group was substantially placed in demand deposit accounts of banks, and the interest rates of bank demand deposit in Mainland China in 2010 to 2011 were 0.36% to 0.50%, which is similar to the rate of interest income of the Company. Meanwhile, some of the bank deposit of the Company was deposited offshore, while offshore interest rate was substantially lower than the interest rate of bank deposit in Mainland China.

Therefore, it is totally without basis of the Report to claim that the bank deposit balance is fabricated by the Company.

3. The statement made in the Report that huge amount of impairment provisions were made for the overstated asset value of football, volleyball and cultural project of the Group is a misunderstanding of the financial data.

   Other segment assets amounting to RMB16.2 billion as stated in the Report is the amount before offsetting inter-company balances of the Group. After offsetting inter-company balances, the actual amount of other segment assets was RMB8.5 billion, which mainly includes: assets related to hotel business amounting to RMB3.9 billion, assets related construction businesses which are supplemental to the project development business (such as project construction companies, material and machinery companies, gardening companies, metal material companies, designing companies, project supervision companies, etc), and assets related to football club, volleyball club and cultural companies. The management considered that no impairment provision is needed for the assets in other business. Therefore, the allegation made by the report that other segment assets are significantly over-estimated is groundless.

4.1 The method used by the Report to estimate the valuation of investment properties is wrong.

   According to HKFRS 40, the fair value of the investment property means the voluntary exchange price of real estate between informed parties in arm's length transaction. In determining the fair value of the investment property, reference should be made to the current market price of the same or similar type of properties available in active market (market public price). If current market prices of the same or similar type of properties are not available, recent transaction prices of the same or similar type of properties in active market can be used as reference, along with certain factors such as circumstances of the transaction, the transaction date, and the placed located. Thus, a reasonable estimation of the fair value of the investment property will be made. In addition, the estimation can be based on the estimated future rental income and the current value of the related cash flow.

A number of investment properties of the Company are under construction (representing about 31% of the total investment property), and no rental income is generated. Part of the constructed investment properties are located in communities with low occupancy rate, the rental income of the properties are still at a low level. As the communities develop gradually, the future rental income is expected to increase progressively. In estimating the fair value of the investment property, the Company has given full consideration to the impact of the above-mentioned factors, and reference has been made to the valuation conducted by independent valuer in accordance with the requirements of the HKFRS.

Therefore, it is erroneous and highly misleading to estimate the fair value of investment properties of the Company by using current rental income only.

4.2 The claim made in the Report that the Company under-estimates cost of properties available for sale through over-estimating cost of investment properties is blatantly wrong.

The Group has applied the same method to calculate cost of sales of properties and cost of investment properties. The unit property cost of the Group is calculated through dividing construction cost of properties by the relevant gross floor area, while the situation of allocating the cost of properties available for sale to cost of investment properties does not exist.

When calculating the unit cost of the investment properties, it was assumed that the gross floor area of a car parking space is 10 m^2. This assumption is completely unreasonable and reflects the severe lack of experience in the industry of the author of the Report. In fact, besides the area occupied by the parked car, the gross floor area of car parking space should also include a portion of the public road of the car park. Therefore, the gross floor area of each car parking space should be approximately 25 to 30 m^2.

The Report uses an erroneous assumption to wrongly calculate the unit cost of investment properties; therefore, the conclusion consequently drawn is completely wrong and groundless.

5. The Report mentioned that the properties delivered in the first half of 2011 did not carry the corresponding land cost forward, which is totally without basis.

In the first half of 2011, the area of properties delivered was 5 million sq.m, the corresponding land cost carried forward was RMB3.78 billion, the Company has accounted for the land cost of properties delivered in accordance with the requirements of the HKFRS.

It is extremely imprudent to speculate the area and cost of our properties delivered during the current year by the area and the average price information at the beginning of the period, the current increase and the end of the period. In consequence, the area of the properties delivered in the first half year, and the amount of land cost carried forward are all mistaken. Therefore, being deduced by the mistaken data, it is erroneous to make a conclusion that the cost during the current year was underestimated.

6. The Report applied other operating incomes as the measurement for the turnover days of the other receivables, which is definitely a misunderstanding of the financial data.

   The other incomes stated in the Report included construction services income, property management income and property rental income. The corresponding receivable has already been accounted for and disclosed in the trade receivables of the financial report. Other receivables mainly comprised the security and deposits, amounts paid on behalf of constructors and petty cash paid by the Group during the normal business activities, which were totally irrelevant to other incomes. Therefore, it is absolutely unreasonable for the author to use these two irrelevant accounting items to calculate the turnover days, while the conclusion it made was totally unfounded. Besides, the Group did not lend to any employee of the Company.

   In addition, amounts due from related parties included in other receivables have been disclosed in the consolidated financial statements in accordance with HKFRS and the Hong Kong Company Ordinance.

7. The Ministry of Finance of the PRC ("MOF") conducts examination on the quality of accounting information for some key enterprises every year. The target of this examination is the financial statements for the year ended 31 December 2009 of Guangzhou Evergrande Real Estate Group Co., Ltd. ("Guangzhou Company"), which is a subsidiary of the Company.

   The Company have 150 subsidiaries at the end of 31 December 2009. Guangzhou Company which was examined by MOF is only a PRC subsidiary of the Company and it has over 50 subsidiaries. The audit of Guangzhou Company is conducted by a PRC CPA firm.

   The key matter mentioned in MOF's examination report is that Guangzhou Company has only prepared the company stand-alone account and not prepared the consolidated accounts when it prepared its PRC statutory accounts for the year ended 31 December 2009.

   The Company has consistently prepared consolidated financial statements in accordance with Hong Kong Financial Reporting Standards and all subsidiaries (including the subsidiaries of Guangzhou Company) have been consolidated.

Where applicable, the Company's independent auditor, PricewaterhouseCoopers, has compared the financial information included in the responses above to the consolidated financial statements of the Group, noting consistent.

(2) Section 2 of the Report

The Report alleged the Company acquired its land bank at a deep discount to prevailing market prices by paying bribes to local officials. The Report also commented that the PRC government is beginning to enforce idle land law and the Company risks huge fine and the loss of the vast majority of its land inventory if the government continues to enforce these laws.

- Since 2006, the Company has taken the initiative in entering the second-tier and third-tier cities. Up to the year ended 31 December 2011, 97% of the projects of the Group were located in second-tier and third-tier cities in the PRC, and the land acquired by the Group were located in lower price rural-urban fringe areas with potential for development. When the Company entered these cities, the property market in these cities were mostly in their initial development stage with the majority of urban property price between RMB3,000 and RMB5,000 per square meter. There are distinct differences between the property price of these cities and the property price of the first-tier cities where property price is extremely high and comparing the land costs with other property developers with the majority of their projects located in the first-tier cities or developed second-tier cities is totally meaningless.

- All the projects of the Group were obtained by the Company legally and has obtained the necessary construction planning permit, construction engineering permit, building permit and pre-sale permit for commodity housing. The Group's business model is the rapid development and quick sale of projects, and the Company has never had a piece of idle land.

- The Group acquired projects in two ways, firstly, it obtained its land in the market through public auction in accordance with relevant laws and regulations, secondly, through acquisition in the secondary market. When acquiring land from the secondary market, the land would be acquired from the original land vendor at a premium, such premium is without official invoice. The acquisition of land in the secondary market has nothing to do with the government and there does not exist any possibility of bribery of government officials. The allegation in the Report that the premium without the support of official invoice equals bribery is a malicious slander.

- The Company solemnly declared that the Company has always been law-abiding, operate in accordance with the requirements of the law, and has never been and will not be engaging in any bribery act in order to obtain benefits.

(3) Section 3 of the Report

1. The Report alleged that the collection of cash deposits has remained that despite continued rapid growth in contracted sales.

   It is also groundless of the report to question the authenticity of the contract sales based on the claim that there were no changes in the advanced from customers of the Company. According to the accounting standards, the Company will record the pre-sale proceeds as advanced from customers before the relevant properties delivery. Once the properties are delivered and income is recognized, the advanced from customers will then be transferred to revenue. The balance of the advanced from customers is an accounting item that consists of transferring in and out. For such reason, it is non-sense to judge our contract sales as fabricated by simply comparing the balances of advanced from customers.

   The contract sales of the Company in 2011 were 80.3 billion, and the current actual recovery of funds was 68.1 billion. Thus the recovery rate is desirable.

2. The Report alleged the debt balance of the Company continues to explode.

   The report defined advanced from customers, the deferred tax and the tax payables as borrowings. However, this definition is not complied with the market practice. These items will never be financial indebtedness. In particular, the advanced from customers will be transferred out once the delivery of the completed properties, and no cash repayment will be involved.

   In fact, the Company possesses a sound financial structure, with actual borrowing of only RMB51.7 billion as at 31 December 2011, of which short-term debts only accounted for approximately RMB10.2 billion. The net gearing of the Group is 67.5%, which is also at a considerably healthy level.

3. The Report alleged the Company borrowed RMB6.7 billion from the trust industry in China at a cost of 20% to 30%.

   At the end of 2011, the average interest rate of the trust loan was approximately 12%, and therefore the interest rate of the trust loan of 20%–30% stated in the Report was totally unfounded.

   At the end of 2011, the average interest rate of the domestic borrowings (including the trust loan) was 8.38%, which the management of Company considers to be at a reasonable level.

   Trust loan is a supplement to our financing measures, which accounted for 14% of the total amount of borrowings of the Group. The management of Company considers it to be at a normal level and it is totally groundless to conjecture that the Group is facing a huge financial crisis.

4. The Report alleged the management of the Company has incentives to fabricate pre-sale.

   Contracted sales of the Company for the five months ended 31 May 2012 were RMB2.22 billion, RMB2.02 billion, RMB4.02 billion, RMB8.19 billion and RMB10.37 billion, respectively. The Report alleged the management of the Company has incentives to fabricate pre-sale is totally unfound and without basis.

5. The Report alleged the Company is embarking on unattractive new projects and heavy discounting.

   The Company reported year-on-year growth from 2009 to 2011. The numbers of contract that the Company possessed and the contracted sales for the three years ended 31 December 2009, 2010 and 2011 were 32, 56 and 121 and RMB30.3 billion, RMB50.42 billion and RMB80.39 billion, respectively. This was a result of the first-mover advantage of the Company entering second and third-tier cities. As to the fluctuation of property prices for projects at different time, the Company considers that normal during the course of the Company's ordinary sales activity. The comment in the Report was based on the price fluctuations in a certain city at a certain time, which is to draw inferences out of ulterior motives.

6. The Report alleged that the Company has ordered delays of project launches, laying off of employees and delay payment for construction contracts.

   The sales and receipt of funds of the Company are in good condition. The Company has strong cash flow, its projects are planned and orderly construction, and payments were made in accordance with the progress of the project. As for the alleged layoff plans, it was a misunderstanding by the market. The initiative was not to reduce the total number of employees, but to adjust staffing structure to optimize the integration of human resource structure, with the total number of employees still increasing in practice year by year.

   In July 2011, the Company offered staff that has been employed by the Company for more than one year a 30% discount on the purchase of a property once every three years. The offer was intended to be part of the employee welfare policy and was not to sell real estate.

   The pre-sale activities of the Company has consciously accept the supervision of the government and the public, all of its projects were only put on sale after the filing and obtaining an approval from the local government. Because the quality of the Company's products and affordable price, the project being popular is an objective fact.

   The Report's comments on the above facts were relying solely on unconfirmed rumors and are speculative in nature.

(4) Section 4 of the Report

The Report alleged Mr. Hui Ka Yan ("**Mr. Hui**"), the chairman and controlling shareholder, has bogus credentials. The Report alleged Mr. Hui financed the Company utilizing a maze of Ponzi-esque debt deals and under the under-the-table assets swaps.

- The credentials of Mr. Hui is true, Mr. Hui has never exaggerate his academic qualifications and titles, and has never reap any benefits from any relevant title.
- As to the pre-IPO financing of the Company during the Company's restructuring and prior to the listing of the shares on the Stock Exchange, all details have already disclosed in the prospectus of the Company. All undertakings of Mr. Hui on investors return were made based on the confidence of Mr. Hui in the development of the Company, and has in fact provided win-win results.
- The allegation made in the Report in relation to the Company's historical financing activities is groundless speculation, and is also malicious misleading.

- Mr. Hui personally purchased a house on the Peak completely in accordance with prevailing market price. The Report judges this transaction using the average price of surrounding property transaction and provided an absurd conclusion.

(5) Section 5 of the Report

The Report alleged Mr. Hui has directed US$2.5 billion to support certain "pet projects" of Mr. Hui.

- The Report listed the Company's investments in football, volleyball, as well as minor investments in the cultural industry as Mr. Hui's pet project is groundless. The allegation of investment of more than RMB16.2 billion is without basis.

- The Company considers its investment in football and volleyball will enhance the Company's brand. The Company's investment into football was RMB500 million and generated revenue of RMB420 million. The Company's net investment in football was in fact about RMB80 million. Investments by the Company in volleyball and cultural industries in 2011 were less the RMB70 million.

The Board also noted the recent decreases in the price and the unusual trading volume in the shares of the Company. The Board wishes to note that save as disclosed in this announcement, there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

This announcement is made by order of the Board, of which the directors individually and jointly accept responsibility for the accuracy of the information contained in this announcement.

By order of the Board
Evergrande Real Estate Group Limited
Hui Ka Yan
Chairman

Hong Kong, 22 June 2012

As at the date of this announcement, the board of Directors comprises eleven members, of which Mr. Hui Ka Yan, Mr. Xia Haijun, Mr. Li Gang, Mr. Tse Wai Wah, Mr. Xu Xiangwu, Mr. Xu Wen, Mr. Lai Lixin and Ms. He Miaoling are the executive Directors; and Mr. Yu Kam Kee, Lawrence, Mr. Chau Shing Yim, David and Mr. He Qi are the independent non-executive Directors.

Annexure “C”

**IN THE MATTER OF
EVERGRANDE REAL ESTATE GROUP LIMITED
AND ITS LISTED SECURITIES (STOCK CODE: 3333)**

**NOTICE TO THE MARKET MISCONDUCT TRIBUNAL
PURSUANT TO SECTION 252(2) AND SCHEDULE 9 OF THE
SECURITIES AND FUTURES ORDINANCE (CAP. 571)
("ORDINANCE")**

Whereas it appears to the Securities and Futures Commission that market misconduct within the meaning of section 277 of Part XIII of the Ordinance has or may have taken place in relation to the securities of Evergrande Real Estate Group Limited (Stock Code: 3333) listed on the Stock Exchange of Hong Kong Limited, the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:

(a) whether any market misconduct has taken place;

(b) the identity of any person who has engaged in the market misconduct; and

(c) the amount of any profit gained or loss avoided as a result of the market misconduct.

Person Specified

Andrew Edward Left
(hereinafter called the **"Specified Person")**

1. Evergrande Real Estate Group Limited **("Evergrande")** was incorporated in the

Cayman Islands on 26 June 2006. It was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance.

2. On 5 November 2009, its shares were listed on the Stock Exchange of Hong Kong Limited **("Exchange")** with a stock code of 3333. They remained so listed on Thursday 21st June 2012.

3. On 21 June 2012, a trading day on the Exchange, at around 10.15 a.m., the Specified Person disclosed, circulated or disseminated information or authorized or was concerned in the disclosure, circulation or dissemination of information pertaining to Evergrande by posting a report on the website of Citron Research www.citronresearch.com **("Citron Report")**.

4. The Citron Report pertained to Evergrande and was negative in the sense that it stated, *inter alia*, that the company was insolvent and had consistently presented fraudulent information to the investing public.

5. The information in the Citron Report **("Information")** was false or misleading as to a material fact, or was false or misleading through the omission of a material fact: the company was not insolvent and nor had it consistently presented fraudulent information to the investing public.

6. The Information was likely to:

(a) induce another person to subscribe for securities, or deal in futures contracts, in Hong Kong; or

(b) induce the sale or purchase in Hong Kong of securities by another person; or

(c) maintain, increase, reduce or stabilize the price of securities, or the price for dealings in futures contracts, in Hong Kong.

7. On 21st June 2012, the turnover of Evergrande shares was exceptionally high and the share price fell significantly.

8. The Specified Person knew that, or was reckless or negligent as to whether, the Information was false or misleading as to a material fact, or was false or misleading through the omission of a material fact.

9. By reason of the matters aforesaid, the Specified Person has or may have contravened section 277(1) of the Ordinance and therefore has or may have engaged in market misconduct.

Dated this 15th day of December 2014

Securities and Futures Commission

Annexure "D"

IN THE MARKET MISCONDUCT TRIBUNAL

**IN THE MATTER OF
EVERGRANDE REAL ESTATE GROUP LIMITED
AND ITS LISTED SECURITIES (STOCK CODE 3333)**

SYNOPSIS

The Company

1. Evergrande Real Estate Group Limited (**"Evergrande"**) was incorporated in the Cayman Islands on 26 June 2006. It was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance.

2. On 5 November 2009 its shares were listed on the Stock Exchange of Hong Kong Limited (**"Exchange"**) with a stock code of 3333. They remained so listed on Thursday 21st June 2012.

The Conduct of the Specified Person

3. On 21 June 2012, a trading day on the Exchange, at around 10.15 a.m., the Specified Person disclosed, circulated, or disseminated or authorized or was concerned in the disclosure, circulation or dissemination of information pertaining to Evergrande by posting a report on the website of Citron Research www.citronresearch.com (**"Citron Report"**).

4. Citron Research is not a legal entity: it is the trade name of Andrew Edward Left, the author of the Citron Report. According to Mr Left, he received a package containing a report about Evergrande which was sent to him anonymously. Mr Left reviewed the information, removed information which he says could not be verified and updated the numbers in the report. He then published this revised report as the Citron Report on his website www.citronresearch.com.

5. The Citron Report pertained to Evergrande and was negative in the sense that it stated, *inter alia*, that the company was insolvent and had consistently presented fraudulent information to the investing public.

Information False or Misleading

6. The information in the Citron Report **("Information")** was false or misleading as to a material fact, or was false or misleading through the omission of a material fact: the company was not insolvent and nor had it consistently presented fraudulent information to the investing public.

7. Neither the materials on which Mr Left relied (as referred to in the Citron Report) nor any other available information justified a conclusion that Evergrande was insolvent or had consistently presented fraudulent information to the investing public.

Likely Effect of Information

8. The Information was likely to:

   (a) induce another person to subscribe for securities, or deal in futures contracts, in Hong Kong; or

   (b) induce the sale or purchase in Hong Kong of securities by another person; or

   (c) maintain, increase, reduce a stabilize the price of securities, or the price for dealings in future contracts, in Hong Kong.

9. The content of the Report was of sufficient import to carry significant weight amongst the investing public. On 21st June 2012 the turnover of Evergrande shares was exceptionally high and the share price fell significantly. The trading volume of Evergrande shares reached 940 million shares on 21 June 2012. The average and highest daily trading volume of Evergrande from 1 January 2012 to 20 June 2012 was 86 million and 232 million shares respectively. On 21 June 2012 the share price reached a high of $4.52 in the morning but then declined sharply to a day low of $3.60, down 19.6% from the previous day's close of $4.48. The stock closed at $3.97 which was 11.4% down from the previous day's closing price. By comparison, the Hang Seng Index declined 1.3% on the same day.

State of Mind of Specified Person

10. Mr Left knew that, or was reckless or negligent as to whether, the Information was false or misleading as to a material fact, or was false or misleading through the

omission of a material fact.

11. Between 6th and 19th June 2012 Mr Left short sold 4.1 million shares of Evergrande at an average price of HK$4.32 per share. He started to buy back Evergrande shares at 11.15 am on 21st June 2012 (around 1 hour after the Citron Report was issued). Between 21st and 25th June he bought back a total of 3.6 million shares and bought back the remaining 500,000 in July 2012. The total amount paid (including commission and tax) to buy back the shares was HK$15,993,116 or an average price of HK$3.90 per share.

12. Mr Left's realised profit from trading Evergrande shares was HK$1,710,556, excluding the cost of borrowing the shares. His realised net profit (deducting the cost of borrowing i.e. HK$114,316) was HK$1,596,240.

13. The notional profit made by Mr Left was HK$2,821,643. The notional profit has been calculated by reference to the drop in the share price after the Citron Report was issued on 21 June 2012. The share price of Evergrande reached a low of $3.60 on 21 June 2012. On the basis that Mr Left covered his entire position of 4.1 million shares at the price of $3.60 and paid transaction costs of 0.226841% (calculated based on the actual transaction costs involved when he bought back the 4.1 million shares plus commission and tax), the total cost would be $14,793,482. The cost of borrowing shares for his short selling was $88,547. The notional profit can therefore be calculated as follows:

A-B-C = $2,821,643 where

A = (net proceeds from Short Selling prior to 21 June 2012, i.e. $17,703,672)
B = (total amount to cover short selling at $3.60, i.e. $14,793,482)

C = (stock borrowing cost up to 24 June 2012 i.e. $88,547)

Conclusion

14. By reason of the matters aforesaid, Mr Left has or may have contravened section 277(1) of the Ordinance and therefore has or may have engaged in market misconduct.

Dated this 15th day of December 2014

Securities and Futures Commission

Annexure “E”

MARKET MISCONDUCT TRIBUNAL

IN THE MATTER OF DEALINGS IN THE LISTED SECURITIES OF EVERGRANDE REAL ESTATE GROUP LIMITED

Date of Delivery of Ruling: 27 October 2015

RULING

1. On 21 June 2012, Andrew Edward Left, the publisher of an Internet website called Citron Research, published a report ('the report') concerning a company listed on the Hong Kong Stock Exchange, that company being Evergrande Real Estate Group Limited ('Evergrande'). The report, which, on the material before the Tribunal, appears to have been presented in a direct, easily digestible manner – similar to a PowerPoint presentation – was nevertheless lengthy, containing a detailed overview of Evergrande's finances and its various operations. The report informed readers that, on the basis of analysis and primary research, it could be said inter alia that, first, Evergrande was insolvent and, second, that "at least 6 accounting shenanigans" had been undertaken by the Company's management in order "to mask Evergrande's insolvency."

2. On 15 December 2014, the Securities and Futures Commission (the 'SFC') issued a notice pursuant to s.252 (2) and Schedule 9 of the Securities and Futures Ordinance, cap 571, requiring this Tribunal to determine whether, in publishing the report, Mr Left may have contravened section 277(1) of the Ordinance and therefore engaged in market misconduct. Expressed broadly, and in the context of the present case, the section directs that a person shall be

guilty of market misconduct if he disseminates false or misleading information as to material facts about a corporation, knowing the information to be so or being reckless or negligent as to whether it is so, if that information is likely to induce others to deal.

3. In this regard, the notice alleged that the information contained in the report "was false or misleading as to a material fact, or was false or misleading through the omission of a material fact" in that Evergrande was not insolvent and nor had it consistently presented fraudulent information to the investing public. The notice alleged that Mr Left either knew or was reckless or negligent as to whether the information contained in the report was false or misleading. The notice further alleged that on the day of publication of the report "the turnover of Evergrande shares was exceptionally high and the share price fell significantly".

4. At this juncture, it needs to be emphasised that the report was based on an analysis of Evergrande's own published material (for example, its balance sheets) considered in conjunction with other relevant material in the public domain (for example, newspaper reports and internet sources). By way of illustration, one page of the report (page 41) states:

> "CRISIS RED FLAG #2: While Evergrande shamelessly touts its "Cash Is King" fiscal policy, its debt balances continue to explode. Evergrande is overleveraged and the Company has no margin for error.
>
> Evergrande continues to haemorrhage case despite showing huge growth in reported revenues and profitability. Since December 31, 2008, total reported debt has exploded from RMB 15bn to RMB 95bn. As outlined earlier, Evergrande's off-balance sheet debt is at least RMB 23bn, bringing total on-and-off-balance sheet debt at 12/31/2011

> to RMB 118bn. Even if Evergrande's assets were not overstated, its ratio of debt to equity would be 291%."

These assertions are followed (on the same page) by a table headed 'Debt Summary'.

5. In an application dated 17 September 2015, Mr Left applied to the Tribunal for an order for the production of documents under s.253(1)(b) of the Ordinance or, alternatively, for a stay of proceedings under s.253(1)(i) of the Ordinance. The application was opposed.

6. On behalf of Mr Left, his counsel, Laurence Li, submitted that, on the basis of the SFC case, the central issue for determination by the Tribunal would be whether the information disseminated by Mr Left in the report was in fact false or misleading or, put another way, contrary to what Mr Left had published, "whether Evergrande was actually solvent and whether in fact it had been presenting true accounts". This, submitted Mr Li, required an enquiry into Evergrande's true financial position and in turn this demanded a review of its records and documents. It was for this reason, said Mr Li, that an order for production of relevant records and documents was being sought. The exact terms of the order – or perhaps successive orders – would be subject, of course, to the guidance of the Tribunal.

7. As the Tribunal sees it, in practical terms, if it grants the order, it would mean that Evergrande would have to make available to those representing Mr Left all of its records spanning a relatively extensive period of time. These records would be unlikely to be limited to purely financial records as the report

spoke of a broad range of matters.[1] Mr Duncan SC, who appeared for the SFC, informed the Tribunal that these documents were spread across the Mainland in numerous repositories. The clear implication was that it would be a mammoth task to make all the documents available and indeed an equally mammoth task for those representing Mr left to be able to conduct a coherent study of them. Although nothing was said of delay, the Tribunal notes that the potential for delay would have to be alarming.

8. Mr Li, however, saw no alternative. The SFC, he said, relied on three matters of evidence in order to prove its case. First, it relied on the audited financial statements of Evergrande; second, it relied on certain analyst reports which themselves assumed the truthfulness and completeness of the audited financial statements and, third, it relied on an expert opinion, that expert also assuming the truthfulness and completeness of the audited financial statements. In short, at the end of the day everything was reduced to the audited financial statements. Audited financial statements, however, said Mr Li only went so far. Audited financial statements were not themselves proof that there had been no fraud. Fraudulent activities were often – perhaps invariably – hidden from the auditors.

9. In addition, as Mr Li put it, when a research report sets out an analysis of the finances of a company and the report is drawn to the conclusion that the company is essentially insolvent and/or has been presenting fraudulent information to the public, this means, of course, that the report calls into question the degree of assurance that the relevant audits are capable of giving. Accordingly, "citing the audited figures is no logical answer. It is not even

---

[1] For example, among many other matters, the report spoke of Evergrande's off-balance sheet debt related to "JV buybacks and unpaid land deals" exceeding RMB23 billion. That issue alone – potentially – would require a study of numerous contracts and correspondence related to those contracts in addition to pure accounting documents.

meeting point." That being the case, there was only one way to determine whether the information disseminated by Mr Left in the reports was false or misleading, that was to look *beyond* the audited statements into primary documents: hence the request for an order for the production of relevant documents pursuant to s.253(1)(b).

10. In opposing the application, Mr Duncan said that the SFC case was not as openly structured as Mr Li appeared to suggest. It did not require that there be a return to the fountainhead of Evergrande's primary documents. The matter fell to be determined on the basis only of what information was in the public domain at the time of the report. It was *that* information which Mr Left used to compile his report and it was accordingly on *that* information that his culpability should be determined.

11. As the Tribunal understands it, it was implicit in Mr Duncan's submissions that the SFC accepts that market commentators are entitled, on the information available in the public sphere at the relevant time, to disseminate their analysis of the strengths or weaknesses of a particular listed corporation. That is fair comment, no matter the perceived cogency or weakness of the comment. What market commentators are not permitted to do, however, is to distort that information so that, knowingly or being reckless or negligent as to whether it is the case, what is published constitutes false or misleading information about the corporation. As the Tribunal understands it, it is within that last sentence that the SFC case is contained. Hence paragraph 7 of the synopsis which appears under the heading of 'Information False or Misleading' and which states:

> "*Neither the materials on which Mr left relied (as referred to in the Citron Report) nor any other available information* justified a conclusion that Evergrande was insolvent or had consistently presented fraudulent information to the investing public." [emphasis added]

12. Properly understood, said Mr Duncan, the SFC case does not, therefore, depend on the production of the myriad documents that lie behind the published audited financial statements of Evergrande. The SFC case is limited to the assertion that Mr Left created false or misleading information out of what was publicly known about the corporation at the time. Any defence, he said, was to be similarly restrained.

13. Mr Duncan submitted that such restraint would not act unfairly to Mr Left. To the contrary, only in those circumstances would the enquiry by this Tribunal be able to look to matters within their true context. At the time when he made his comments, Mr Left did not have access to Evergrandes's accounting material nor other private documents possessed by the corporation. The best that he could do in the circumstances was to analyse available information, including the financials of the corporation and available market information, and then arrive at an educated opinion. It was on that basis that his culpability should in fairness be judged. That basis, however, did not require an exploration of Evergrande's archives.

14. The Tribunal is satisfied that Mr Duncan's submission must be correct. At the time when Mr Left compiled his report – as a market commentator and not an 'insider' – the only information available to him was information in the public domain. It was that information that he used as the basis for asserting that Evergrande was for all practical purposes insolvent and that it had consistently presented fraudulent information to the investing public. The SFC is therefore obliged to present its case on the basis of that information just as Mr Left is obliged to do so.

15. In the view of the Tribunal, one way of testing the validity of Mr Duncan's submission is to view the matter through the prism of an SFC case premised on the basis of all primary documents being available to it. It would clearly be wrong for the SFC to issue a notice on the basis that, while, based on the information in the public domain at the relevant time, Mr Left was entitled to come to the findings and to draw the inferences that he did, nevertheless a study by the SFC of the primary documents in the possession of Evergrande now proved that those findings and inferences were false or misleading. In that instance, Mr Left would be found culpable not on the basis of what was in the public domain, and what was therefore available to him, but on the basis of what had been dug out of archives containing the private property of Evergrande and being known only to insiders. Equally, in the view of the Tribunal, it would not assist Mr Left to say that, although on all the information known to him at the time, he knew or was reckless or negligent as to whether his published comments were false or misleading, nevertheless, he should be given the opportunity to trawl through the primary documents in the archives of Evergrande to see whether or not there is some vindication to be found in them.

16. Although not determinative, the Tribunal also takes into account the essential mischief that s.277 seeks to avoid. It is not of itself the publication of false or misleading information about a listed corporation by a person who knows or is reckless or negligent as to that fact. The mischief lies in the fact that such information is likely to induce the investing public to deal in the securities of the listed corporation and thereby innocently undermine and/or distort the open and honest workings of the market. The section is there to protect the integrity of the market. It would, however, for all practical purposes, become almost impossible to employ as a regulatory tool if market commentators (many of whom wield considerable influence) who are accused under the section are able to ignore all information in the public domain at the relevant time, despite the fact that that is the information out of which their indicted comments arose, and demand instead the right to trawl through the

primary documents in the possession of a corporation in the hope that somehow those primary documents will exonerate them.

17. For the reasons given, the application must be dismissed. There will be an *order nisi* awarding costs to the SFC, that order to be made final at the expiration of 90 days from the date of this ruling, unless an earlier application is lodged for a different costs order.

The Hon Mr Justice Hartmann
(Chairman)

Annexure “F”

MARKET MISCONDUCT TRIBUNAL

IN THE MATTER OF DEALINGS IN THE LISTED SECURITIES OF EVERGRANDE REAL ESTATE GROUP LIMITED

Date of Delivery of Ruling: 23 February 2016

SECOND RULING

1. On 21 June 2012, Mr Andrew Left ("Mr Left"), the publisher of an Internet website called Citron Research, published a report concerning a Mainland company listed on the Hong Kong Stock Exchange: Evergrande Real Estate Group ("Evergrande"). In that report, Mr Left presented detailed "research and analysis compiled over several months" which, he said, concluded that Evergrande was essentially "an insolvent company" that had consistently "presented fraudulent information to the investing public". These were allegations of very considerable gravity. Mr Left recommended to readers that the company represented "a good short opportunity", it being a company that had "misled investors". Mr Left predicted that the endgame for the company was a certainty. It appears that the report had a material impact on the market, media outlets reporting that the shares of Evergrande had fallen by about 11% in its wake. Mr Left accepts that he entered into an exercise of shortselling and it appears that he profited from that exercise.

2. By notice dated 15 December 2014, the SFC directed this Tribunal to determine whether Mr Left had been guilty of market misconduct pursuant to the provisions of s.277(1) of the Securities and Futures Ordinance by publishing false or misleading information likely to induce the sale of Evergrande shares, knowing the information to be false or misleading or being reckless or negligent as to whether it was so.

3. On 30 September 2015, counsel representing Mr Left, Mr Laurence Li, made an application to this Tribunal for an order for the production of documents. The application was opposed, Mr Peter Duncan SC appearing for the SFC.

4. Mr Li submitted that the central issue for determination by the Tribunal would be whether the information disseminated by Mr Left was in fact false or misleading in that, as a matter of fact, Evergrande was insolvent and had published fraudulent accounts. This, said Mr Li, demanded an enquiry into Evergrande's true financial position and this in turn demanded a review of all relevant records and documents held by the company. It was for this reason, said Mr Li, that an order for production of documents was being sought. As Mr Li put it, audited statements and the like were not themselves proof that there had been no fraud. Fraudulent activities, almost invariably, were hidden from the auditors.

5. In opposing the application, Mr Duncan said that for the enquiry to be fairly conducted it was not necessary for there to be a return to Evergrande's copious primary documents held in numerous repositories in the Mainland. As I expressed Mr Duncan's submissions in my ruling of 27 October 2015, a copy of which is next to this ruling as Annexure A, "the matter fell to be determined on the basis only of what information was in the public domain at the time of the report. It was *that* information which Mr Left used to compile his report and it was accordingly on *that* information that his culpability should be determined."

6. In this regard, the synopsis which accompanied (and was part of) the SFC notice dated 15 December 2014 made clear that Mr Left's culpability was being judged on the limited basis of information upon which he had relied or other information available to him at the time. Paragraph 7 of the synopsis states: "Neither the materials on which Mr Left relied (as referred to in the Citron Report) nor any other available information justified a conclusion that Evergrande was insolvent or had consistently presented fraudulent information to the investing public."

7. In my ruling, I found that Mr Duncan's submissions had to be correct. In this regard, I said: "At the time when Mr Left compiled his report – as a market commentator and not an insider – the only information available to him was information in the public domain. It was that information that he used as the basis for asserting that Evergrande was for all practical purposes insolvent and that it had consistently presented fraudulent information to the investing public. The SFC is therefore obliged to present its case on the basis of that information just as Mr Left is obliged to do so."

8. On the basis of Mr Duncan's submissions, and on the basis of my original ruling, Mr Li now seeks – at the beginning of the hearing itself – a further order amplifying my original order. Mr Li submits that, as Mr Left's culpability falls to be determined on the basis only of what information was in the public domain at the time he published his report, this Tribunal should refuse to consider any evidence arising after the publication of the report. As I have understood his submissions, Mr Li has sought a strict interpretation of this limitation.

9. Mr Li accepts that the strict interpretation that he seeks may well lead to some 'strange' results. By way of example, in the report Mr Left spoke of Evergrande's "untoward land acquisition activities" that were in gross violation of the Mainland's "idle use laws" to the extent that, should the authorities enforce these laws, Evergrande "cannot survive". During the course of submissions, I put it to Mr Li that, in accordance with the limitation on the hearing of evidence sought by him, even if, after the publication of the report, there was evidence that the authorities had in fact proceeded to forfeit land under the "idle use" laws, that evidence could not be considered by the Tribunal, even though it may well support the strength and integrity of Mr Left's analysis contained in his report. Mr Li accepted that would be the case.

10. In my judgment, my ruling never intended any such artificial limitation. I agree with Mr Duncan that, in making his submissions, Mr Li has taken my ruling out of context.

11. I start from a point referred to in my original ruling. Analysts and market commentators fulfil a fundamental role in the transparent and efficient workings of the market. Not being insiders (and having access thereby to inside information), they are required essentially to base their analyses on information in the public domain. Published reports containing their analyses, no matter the perceived cogency or weakness of their conclusions, constitute legitimate comment. That being the case, it would be fundamentally unfair to find an analyst or market commentators to be culpable in respect of a report reasonably and properly based on information in the public domain simply because, unknown to him, in some private repository there was data which, when given the light of day, materially refuted the contents of his report. What such analysts or market commentators are not permitted to do, however, is knowingly, or being reckless or negligent as to whether it is the case, to distort the information *that is available to them,* rendering it false or misleading, and thereby undermining the integrity of the market. I am satisfied that, on any reasonable reading, my original ruling was limited only to ensure the integrity of these observations and did not encompass any prohibition on the Tribunal considering evidence on the basis only that it arose after the date of publication of the report.

12. Accordingly, in light of these observations, the narrow question to be asked is as follows: whatever its provenance or timing, is the evidence probative of whether, judged on the materials in the public domain at the time of publication of the report, Mr Left disseminated false or misleading information? If so, *prima facie*, the evidence may be heard.

13. In light of this, it seems to me that evidence of the following kind may assist the Tribunal in fulfilling its mandate and be admissible:

a) evidence of reaction, for example, the reaction to Mr Left's report by other analysts or market commentators in so far as it is not based upon material coming into the public domain after the publication of the report;

b) evidence of the reaction of Evergrande itself in so far as it is not based upon material coming into the public domain after the publication of the report[1];

c) evidence of the reaction of Evergrande's auditors and the basis upon which they, in their capacity as auditors, refute assertions contained in the report; again, however, such evidence would not be considered by the Tribunal if it was based on matters not in the public domain at the time of the publication of the report: such matters including accounting information and, if relevant, private choices as to the adoption of any particular accountancy methods;

d) evidence of matters that may not have been explicitly placed into the public domain at the time of the publication of the report but which would, or should, have been understood by analysts and market commentators such as Mr Left, for example, standard accountancy practices applicable to the making up and presentation of audited accounts by listed companies[2] or the manner in which listed corporations, acting in accordance with required codes of conduct and regulations, may act;

e) expert evidence seeking to demonstrate that Mr Left's report was false and/or misleading to the extent that such evidence does not encompass material coming into the public domain after the publication of the report.

13. The individual instances detailed above are not to be taken as exhaustive. They are essentially examples intended to illustrate the approach

[1] by way of illustration, information retrieved by Evergrande from its archives in order to refute assertions made in the report would not itself be admissible, that is, open to consideration by the Tribunal, whether published by the company or by market commentators to whom the information was passed. Such information would not be open for consideration on the basis that it was not in the public domain and therefore not available to Mr Left when he was preparing his report.

[2] by way of illustration, during the course of submissions reference was made to the fact that large sums of money expended by Evergrande on its professional football team was principally for purposes of advertising. Information specifically to that effect may not have been in the public domain at the time of publication of the report but would, or should, have been understood by analysts and market commentators as one of the principal reasons why listed companies invest in sporting teams.

that will be adopted in determining what evidence falls for consideration and what does not.

14. As I emphasised on several occasions during the course of submissions, the Tribunal is well aware of the fact that, even though evidence may be probative, basic tenets of fairness may dictate that it should not fall for consideration. Fairness, of course, is a neutral concept ensuring no more than the integrity of the process of enquiry.

15. Again, as emphasised on several occasions during the course of submissions, I do not consider it possible to anticipate each and every issue of 'admissibility' that may fall for resolution as a result of this ruling. In so far as is necessary, the Tribunal will therefore make decisions as and when the need arises. I do not see this as placing any particular difficulties in the way of the enquiry. Witnesses can be asked if evidence they are giving is based on material that only came into the public domain after the publication of the report and on that basis, if necessary, a ruling can be made.

16. No doubt, the Tribunal will be asked to consider blocs of evidential material while disregarding certain aspects of them. For a professional Tribunal that presents no difficulties: it is bread-and-butter fare. The members may not be legally trained but they are persons of eminence in the financial field and are well capable, when clearly instructed, of following such instructions in their assessment of the evidence generally.

17. Finally, mention should be made of a submission made by Mr Li that, if his strict interpretation of my original ruling was not followed, it would effectively mean that he would have to meet a new case, a case, that is, for which Mr Left had not prepared. I do not see that this ruling, based on what I consider to be an ordinary reading of my original ruling, should present Mr Left with any matters of evidence which he should not have anticipated. That said,

as indicated earlier, the Tribunal is aware of the need for fairness in ensuring the integrity of the enquiry and will not be deaf to individual applications.

The Hon Mr Justice Hartmann
(Chairman)

Annexure “G”

Para. 4.1 of the Second Clarification Announcement published by Evergrande Real Esate Limited dated 22 June 2012 –

4.1 The method used by the Report to estimate the valuation of investment properties is wrong.

According to HKFRS 40, the fair value of the investment property means the voluntary exchange price of real estate between informed parties in arm's length transaction. In determining the fair value of the investment property, reference should be made to the current market price of the same or similar type of properties available in active market (market public price). If current market prices of the same or similar type of properties are not available, recent transaction prices of the same or similar type of properties in active market can be used as reference, along with certain factors such as circumstances of the transaction, the transaction date, and the placed located. Thus, a reasonable estimation of the fair value of the investment property will be made. In addition, the estimation can be based on the estimated future rental income and the current value of the related cash flow.

A number of investment properties of the Company are under construction (representing about 31% of the total investment property), and no rental income is generated. Part of the constructed investment properties are located in communities with low occupancy rate, the rental income of the properties are still at a low level. As the communities develop gradually, the future rental income is expected to increase progressively. In estimating the fair value of the investment property, the Company has given full consideration to the impact of the above-mentioned factors, and reference has been made to the valuation conducted by independent valuer in accordance with the requirements of the HKFRS.

Therefore, it is erroneous and highly misleading to estimate the fair value of investment properties of the Company by using current rental income only.