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.