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Zhenro Properties Group Limited
正榮地產集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6158)

DISCLOSEABLE TRANSACTION
DISPOSAL OF SUBSIDIARY

THE DISPOSAL

On 21 June 2023, the Vendor, the Purchaser, Shanghai Yixia, the Target Company, the Project Company, Changtou Zhengli and Zhenro Properties Holding entered into the Agreement, pursuant to which the Vendor has agreed to dispose of, and the Purchaser has agreed to purchase, the Sale Equity Interest, representing 80% of the equity interest of the Target Company, and the Sale Loan for an aggregate consideration of RMB75,000,000.

The Target Company is a joint venture between the Group and Shanghai Yixia, and is principally engaged in property development in the PRC. As at the date of this announcement, the project under the joint venture is under construction and approximately 21% of the saleable properties have been sold. Upon completion of the Disposal, the Group will no longer hold any interest in the Target Company, the Project Company and Changtou Zhengli; the Target Company will cease to be accounted as a subsidiary of the Group; and the Project Company and Changtou Zhengli will cease to be accounted for as joint ventures of the Group.

Having regard to, among other things, the prevailing market conditions as well as the increasingly challenging operating environment, the Board considers that it would be in the interest of the Company, its shareholders and its creditors to realize the Company's investment in the Target Company by way of the Disposal so that it will provide immediate cash inflow to the Group and thereby enhance the liquidity of the Group, relieve the Group from funding obligations in respect of the Target Company and the Project Company and help stabilize the overall operations of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal is more than 5% but all of them are less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date

21 June 2023

Parties

- (i) the Vendor;
- (ii) the Purchaser;
- (iii) Shanghai Yixia;
- (iv) the Target Company;
- (v) the Project Company;
- (vi) Changtou Zhengli; and
- (vii) Zhenro Properties Holding.

Assets to be disposed of

Pursuant to the Agreement, the Vendor has agreed to sell the Sale Equity Interest and the benefit of the Sale Loan to the Purchaser. The Sale Equity Interest represents 80% of the equity interest of the Target Company.

Consideration

The aggregate consideration for the Disposal is RMB75,000,000, comprising consideration for the Sale Equity Interest of RMB1 and consideration for the Sale Loan of RMB74,999,999.

The consideration was determined after arm's length negotiations between the Vendor and the Purchaser and on normal commercial terms taking into consideration the following:

- (i) the amount of capital contribution to the Target Company made by the Vendor in the sum of RMB12,930,800;
- (ii) the audited net liabilities of the Target Company as at 31 December 2022 in the sum of RMB15,331,447;
- (iii) the amount owing by the Target Company to the Vendor as at the date of the Agreement in the sum of RMB190,153,708;
- (iv) the waiver of all claims against the Vendor in respect of non-fulfillment of its pro rata funding obligations to the Project Company vis-à-vis its shareholding in the Target Company; and

- (v) the reasons for the Disposal as mentioned in the section headed “Reasons for the Disposal and use of proceeds” below.

The consideration shall be paid by the Purchaser to the Vendor in cash in the following manner:

- (i) RMB40,000,000 shall be payable by the Purchaser to the Vendor on the next day after all of the following conditions have been fulfilled:
- (a) completion of the registration formalities with the relevant industry and commerce registration authority for transfer of the Sale Equity Interest to the Purchaser and the Purchaser having been registered as owner of the Sale Equity Interest (the “**Industry and Commerce Registration**”);
 - (b) the Target Company and the Purchaser having received the notice of transfer of the Sale Loan (the “**Sale Loan Transfer Notice**”);
 - (c) appointment of the persons nominated by the Purchaser as the legal representatives, directors, supervisors and general managers of the Target Company, the Project Company and Changtou Zhengli having been effected; and
 - (d) completion of the handover by the Vendor of the company chops, seals, bank tokens and unused cheques, and relevant licences of the Target Company, the Project Company and Changtou Zhengli that are in the possession of the Vendor; and
- (ii) RMB35,000,000 shall be payable by the Purchaser to the Vendor within three (3) business days after completion of the handover by the Vendor of all the remaining books, records, documents, contracts, licenses and other properties of the Target Company, the Project Company and Changtou Zhengli that are in the possession of the Vendor and replacement of company chops and seals.

Completion

Within two (2) business days after the signing of the Agreement, the Vendor, the Purchaser and Shanghai Yixia shall submit relevant documents to arrange for the Industry and Commerce Registration.

The Vendor shall also assign all the rights and benefits enjoyed by the Vendor under the Sale Loan (including the principal and interest thereof) to the Purchaser by issuing the Sale Loan Transfer Notice to the Target Company.

Upon completion of the Disposal, the Group will no longer hold any equity or interest in the Target Company, the Project Company and Changtou Zhengli; the Target Company will cease to be accounted as a subsidiary of the Group; and the Project Company and Changtou Zhengli will cease to be accounted for as joint ventures of the Group.

Guarantee

Each of Zhenro Properties Holding, the Purchaser and Shanghai Yixia, having 40%, 50% and 10% beneficial shareholding in the Project Company, respectively, has executed a guarantee in April 2021 in favour of Ping An Bank to guarantee, on a several basis in proportion to their respective beneficial shareholding in the Project Company, the repayment obligations of the Project Company in respect of a loan facility from Ping An Bank in the principal amount of RMB850,000,000. Following completion of the transfer of the Sale Equity Interest, the Purchaser, Shanghai Yixia, the Target Company and the Project Company shall jointly assist Zhenro Properties Holding to arrange for the release of the guarantee executed by Zhenro Properties Holding, and the Purchaser shall assume the guaranteed obligations of Zhenro Properties Holding.

INFORMATION ON THE TARGET COMPANY, THE PROJECT COMPANY AND CHANGTOU ZHENGLI

The Target Company

The Target Company is a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company. As at the date of this announcement, the Target Company is owned as to 80% and 20% by the Vendor and Shanghai Yixia respectively. The Target Company is a joint venture between the Group and Shanghai Yixia and is principally engaged in property development in the PRC.

The Target Company, through the Project Company, holds 50% of the land use rights of a land parcel which is located at Jiangbei New District, Nanjing City* (南京市江北新區) with a total site area of approximately 48,786.26 square meters, which are planned for residential and commercial uses. As at the date of this announcement, the project under the joint venture is under construction and approximately 21% of the saleable properties have been sold.

The audited net liabilities of the Target Company was approximately RMB15,331,447 as at 31 December 2022. The audited consolidated financial results of the Target Company for the years ended 31 December 2022 and 31 December 2021 are as follows:

	For the year ended	
	31 December	
	2021	2022
	<i>RMB million</i>	<i>RMB million</i>
Net loss before taxation	24.3	3.9
Net loss after taxation	24.3	3.9

Subject to final audit, it is expected that the Group will realise a loss of approximately RMB102.9 million from the Disposal, which is estimated with reference to the amount of shareholder's loan owing by the Target Company to the Vendor, 80% of the audited net liabilities of the Target Company as at 31 December 2022 and the aggregate consideration for the Disposal.

The Project Company and Changtou Zhengli

The Project Company and Changtou Zhengli are companies established in the PRC with limited liability. The Project Company is principally engaged in property development business in the PRC and Changtou Zhengli is principally engaged in residential interior decoration and construction engineering business in the PRC.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, each of the Project Company and Changtou Zhengli is held as to 50% by the Target Company and 50% by the Purchaser.

INFORMATION ON THE GROUP

The Group

The Company is an exempted company with limited liability incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange. The Company is an investment holding company. The Group is principally engaged in property development and property leasing.

The Vendor

The Vendor is a company established in the PRC with limited liability and a subsidiary of the Company which is principally engaged in property development in the PRC.

Zhenro Properties Holding

Zhenro Properties Holding is a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company which is principally engaged in investment and development.

INFORMATION ON OTHER PARTIES INVOLVED

The Purchaser

The Purchaser is a company established in the PRC with limited liability. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement:

- (i) the Purchaser is principally engaged in property development, construction and consulting business in the PRC;
- (ii) the Purchaser is wholly-owned by Changjiang Industrial Investment Group Co., Ltd.* (長江產業投資集團有限公司), which is in turn wholly-owned by Hubei Provincial People's Government State-owned Assets Supervision and Administration Commission* (湖北省人民政府國有資產監督管理委員會); and
- (iii) the Purchaser and its ultimate beneficial owners are Independent Third Parties.

Shanghai Yixia

Shanghai Yixia is a company established in the PRC with limited liability and is principally engaged in property development business in the PRC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement:

- (i) Shanghai Yixia is wholly-owned by Shanghai Jianhe Zhiyuan Real Estate Co., Ltd.* (上海建和致遠房地產有限公司), which is in turn owned as to 60% by Du Pengfei* (杜鵬飛) and 40% by Xue Yuting* (薛玉婷); and
- (ii) Shanghai Yixia and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR THE DISPOSAL AND USE OF PROCEEDS

The Target Company is a joint venture between the Group and Shanghai Yixia, and is principally engaged in property development in the PRC. As at the date of this announcement, the project under the joint venture remains under construction and approximately 21% of the saleable properties have been sold. Considering the prevailing market conditions as well as the increasingly challenging operating environment, the selling prices of the project and its nearby property developments have generally declined by 20% to 30% and the sales of the project have been significantly affected, therefore it is expected that it will take much longer for the Group to realize its investment in the project, and it is doubtful that the Group could achieve a positive investment return by holding onto its investment in the project through the Target Company. After reviewing the business and operation status of the project, in particular its declining selling prices and slow sales performance, the Target Company is currently in a loss-making and net liabilities position, and the risk that a continued investment in the project through the Target Company would ultimately result in negative investment return to the Group, the Board considers that it would be in the interest of the Company, its shareholders and its creditors to realize the Company's investment in the Target Company by way of the Disposal so that it will provide immediate cash inflow to the Group and thereby enhance the liquidity of the Group, relieve the Group from funding obligations in respect of the Target Company and the Project Company and help stabilize the overall operations of the Group.

The proceeds from the Disposal are currently intended to be used by the Group for general working capital purpose.

The Directors are of the view that the terms of the Agreement (including the consideration and payment terms) were negotiated on an arm's length basis and on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal is more than 5% but all of them are less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Agreement”	the equity and loan transfer agreement dated 21 June 2023 entered into among the Vendor, the Purchaser, Shanghai Yixia, the Target Company, the Project Company, Changtou Zhengli and Zhenro Properties Holding in relation to the Disposal
“Board”	the board of Directors
“Changtou Zhengli”	Nanjing Changtou Zhengli Decoration Engineering Co., Ltd.* (南京長投正利裝飾工程有限公司), a company established in the PRC with limited liability
“Company”	Zhenro Properties Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 6158)
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Equity Interest and the Sale Loan by the Vendor to the Purchaser pursuant to the terms and conditions of the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company or its connected persons (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Project Company”	Nanjing Changtou Zhengbang Real Estate Co., Ltd.* (南京長投正邦置業有限公司), a company established in the PRC with limited liability
“Purchaser”	Hubei Changjiang Industrial Carrier Investment Development Co., Ltd.* (湖北長江產業載體投資開發有限公司) (formerly known as Hubei Real Estate Investment Group Co., Ltd.* (湖北房地產投資集團有限公司)), a company established in the PRC with limited liability
“RMB”	Renminbi, the lawful currency of the PRC

“Sale Equity Interest”	80% of the equity interest of the Target Company
“Sale Loan”	the amount outstanding and owing by the Target Company to the Vendor as at the date of the Agreement in the sum of approximately RMB190,153,708
“Shanghai Yixia”	Shanghai Yixia Enterprise Development Co., Ltd.* (上海翊夏企業發展有限公司), a company established in the PRC with limited liability
“Share(s)”	ordinary share(s) of US\$0.00001 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Nanjing Zhengqi Real Estate Development Co., Ltd.* (南京正琪置業發展有限公司), a company established in the PRC with limited liability and is owned as to 80% and 20% by the Vendor and Shanghai Yixia, respectively, as at the date of this announcement
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	Nanjing Zhengnai Real Estate Development Co., Ltd.* (南京正奈置業發展有限公司), a company established in the PRC with limited liability and a subsidiary of the Company as at the date of this announcement
“Zhenro Properties Holding”	Zhenro Properties Holdings Company Limited* (正榮地產控股股份有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date of this announcement
“%”	per cent.

By order of the Board
Zhenro Properties Group Limited
Liu Weiliang
Chairman of the Board

Hong Kong, 21 June 2023

As at the date of this announcement, the executive Directors are Mr. Liu Weiliang and Mr. Li Yang, the non-executive Director is Mr. Ou Guowei, and the independent non-executive Directors are Dr. Loke Yu (alias Loke Hoi Lam), Mr. Wang Chuanxu and Mr. Xie Jun.

* For identification purpose only