



Redsun Properties Group Limited

弘陽地產集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1996)

Executive Directors:

Mr. Zeng Huansha

Mr. Zeng Junkai

Mr. Lui Wai Pang

Independent Non-executive Directors:

Mr. Lee Kwok Tung Louis

Mr. Leung Yau Wan John

Mr. Au Yeung Po Fung

Registered office:

Offices of Walkers Corporate Limited

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Head Offices in the PRC:

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Place of Business in Hong Kong

registered under part 16 of

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Hong Kong

29 April 2024

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION DISPOSAL OF 34% EQUITY INTERESTS IN PROJECT COMPANY

INTRODUCTION

Reference is made to the announcement of the Company in relation to the disposal of 34% equity interests in the Project Company dated 9 August 2023 (the “**Announcement**”).

The purpose of this circular is to provide you with, among other things, (i) further details of the Disposal; and (ii) the valuation report on the property interest held by the Project Company.

THE EQUITY AND DEBT TRANSFER AGREEMENT

The following sets forth a summary of the principal terms of the Equity and Debt Transfer Agreement:

Date

9 August 2023

Parties

- (a) Hongzong Real Estate, an indirect non-wholly-owned subsidiary of the Company;
- (b) PRI Real Estate, a company established in the PRC with limited liability; and
- (c) the Project Company, a company established in the PRC with limited liability which is held as to 66% by PRI Real Estate and 34% by Hongzong Real Estate respectively as at the Latest Practicable Date.

Subject Matter

Pursuant to the Equity and Debt Transfer Agreement, Hongzong Real Estate agreed to sell the Sale Shares, representing 34% equity interests in the Project Company, and the Sale Loan, representing the shareholder's loan owed by the Project Company to Hongzong Real Estate; and PRI Real Estate agreed to purchase the Sale Shares and the Sale Loan. Upon completion of the Disposal, the Group will cease to hold any interest in the Project Company.

Consideration and Payment Terms

Pursuant to the Equity and Debt Transfer Agreement, the consideration payable in cash by PRI Real Estate shall be RMB295 million, which consists of:

- (a) the consideration for the transfer of the Sale Shares, representing 34% equity interests in the Project Company, in the amount of RMB0; and
- (b) the consideration for the assignment of the Sale Loan in the amount of RMB295 million,

and accordingly, the aggregate consideration of the Disposal shall be RMB295 million.

PRI Real Estate shall deposit the aggregate consideration to an escrow account to be opened in the name of Hongzong Real Estate with a financial seal reserved by Hongzong Real Estate and a personal seal reserved by PRI Real Estate (the "Escrow

Account”), within five working days after the signing of the Equity and Debt Transfer Agreement. The Disposal was not subject to any condition precedent and subsequently on 15 August 2023, the Disposal was completed and the Company has already received the consideration of RMB295 million on 15 August 2023.

In view of the fact that as at 31 December 2022, the net liability of the Project Company amount to RMB83.21 million. As the fair value of net assets equals to the equity value, the equity value of the Project Company is therefore RMB0; based on the current project sales of the Project Company and the expected arrangements for collection of sales proceeds; and taking into account the time value of the repatriation of funds and the expected losses on the Project Company’s current projects, the Company considers that the investment made by the shareholder(s) of the Project Company would not be able to be fully recovered. Therefore, there is a discount in the consideration for the Sale Loan. Accordingly, the consideration has been determined on the basis of normal commercial terms and after arm’s length negotiations with reference to, among others, (i) the estimated valuation of the Project Company’s equity of RMB0 and the amount of the Sale Loan; and (ii) the valuation of the properties of the Project Company. In essence, based on the above and taking into account the balance of the debt of the Company after the accounting adjustment for the excessive losses of approximately RMB326 million, which shall have an estimated discounted amount of future sales receipts of approximately RMB31 million, it renders the difference between therein of RMB295 million.

Completion

Completion of the Disposal shall take place on the day on which the local market supervision and administration authority issues the notice of registration of approval for the Disposal or the Project Company obtains the new business licence. Within two working days upon completion of the Disposal, PRI Real Estate shall arrange for full release of the consideration in the Escrow Account to an account designated by Hongzong Real Estate.

Among others, within three working days from the date of completion of the registration of the change of shareholding pursuant to the Equity and Debt Transfer Agreement, the Project Company shall cease the use of all the brands related to “Hongyang” and complete the renaming of the projects accordingly.

INFORMATION ON THE PROJECT COMPANY

The Project Company is a company established in the PRC with limited liability on 22 September 2020 which is principally engaged in real estate development and operation. As at the Latest Practicable Date, the Project Company is held as to 66% by PRI Real Estate and 34% by Hongzong Real Estate, respectively.

The Project Company only has one property project, i.e. Zeng Cheng Times in Guangzhou, which is located in Yongning, Zengcheng District, Guangzhou City, covering an area of 53,392.15 square meters and a total construction area of 246,984.57 square meters. The main business types in the zone are high-rise residential buildings and ground floor commercial buildings. The project is currently under construction.

Financial information of the Project Company

The table below sets forth the unaudited consolidated financial information of the Project Company (prepared in accordance with the applicable financial reporting standards in the PRC) for the two financial years ended 31 December 2021 and 31 December 2022:

	For the year ended 31 December 2021 (unaudited) RMB'000	For the year ended 31 December 2022 (unaudited) RMB'000
Net loss before taxation	11,837	76,666
Net loss after taxation	8,889	83,704

The unaudited net liability of the Project Company as at 31 December 2022 was approximately RMB83.21 million. The unaudited net liability of the Project Company as at 30 June 2023 was approximately RMB555.63 million.

Valuation on the property interest held by the Project Company

The Company has closely negotiated and discussed with the valuer in relation to the preparation of the valuation report since the discussion for the entering into of the Equity and Debt Transfer Agreement began to procure the compliance with Rule 5.07 of the Listing Rules, and therefore the preparation of the valuation report by the valuer with the effective date of 31 July 2023, which is the closest valuation date available to the completion date of the Disposal.

Upon the entering into of the Equity and Debt Transfer Agreement on 9 August 2023, the Company had been actively seeking for a suitable financial adviser to assist the Company. However, out of the Company's expectation and planning, the process of seeking for a suitable financial adviser has caused the Company a substantial amount of time. The Company has taken extra time to engage and cooperate with the financial adviser and the difficulties encountered has inevitably prolonged the time required for the preparation of the circular despite the Company's best effort in complying with Rule 5.07 of the Listing Rules.

In order to ensure compliance with Rule 5.07 of the Listing Rules in future in similar circumstances, the Company would further improve its internal control system implemented to enhance the awareness of the senior management and core team of employees handling disclosure related matters of the Company such that the engagement process of a suitable financial adviser of relevant projects could begin in an earlier stage of the discussion process

of the agreement. Also, the Company would maintain a list of suitable financial advisers with whom the Company has cooperated with or would like to cooperate with such that the Company would be able to engage a suitable financial adviser earlier in any upcoming transactions of the Company.

INFORMATION ON THE PARTIES INVOLVED IN THE DISPOSAL

The Group

The Group is a leading comprehensive property developer in Jiangsu Province, the PRC, focusing on the development of residential properties and the development, operation and management of commercial and comprehensive properties.

Hongzong Real Estate

Hongzong Real Estate, a company established in the PRC with limited liability, is principally engaged in real estate consultation; property leasing; and real estate development and operation. As at the date of the Announcement, Hongzong Real Estate is held as to 51% indirectly by the Company and 49% by Ningxia Dingxin Zhiying Equity Investment Management Company Limited* (寧夏鼎信智贏股權投資管理有限公司), which is in turn indirectly wholly-owned by Guo Ning* (郭寧).

PRI Real Estate

PRI Real Estate, a company established in the PRC with limited liability, is principally engaged in household leasing, property management and real estate development and operation. As at the Latest Practicable Date, PRI Real Estate is directly held as to 100% by Guangzhou Pearl River Industrial Group Company Limited (廣州珠江實業集團有限公司), and Guangzhou Pearl River Industrial Group Company Limited (廣州珠江實業集團有限公司) is held as to 10% by the Department of Finance of Guangdong Province and 90% by the People's Government of Guangzhou, respectively.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, PRI Real Estate and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Upon completion of the Disposal, it will be beneficial for the Company to strengthen its cash flow, which can facilitate further development of guaranteed delivery and guaranteed operation.

The terms of the Equity and Debt Transfer Agreement have been arrived after arm's length negotiations among the parties. The Directors (including the independent non-executive Directors) have confirmed that the terms of the Equity and Debt Transfer Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. None of the Directors have any material interest in the Equity and Debt

Transfer Agreement and the transactions contemplated thereunder. Accordingly, none of the Directors are required to abstain from voting on the Board resolutions approving the Equity and Debt Transfer Agreement and the transactions contemplated thereunder.

FINANCIAL EFFECTS OF THE DISPOSAL

Upon completion of the Disposal, it is estimated that the Company would record a loss on the Disposal before taxation of approximately RMB31 million, being the difference between the balance of the debt of the Company, taking into account the accounting adjustment for the excessive losses, of approximately RMB326 million and the aggregate consideration for the Disposal of RMB295 million. The actual loss as a result of the Disposal to be recorded by the Group shall be subject to final audit to be performed by the Company's auditors. The Disposal will not have a significant impact on the Company's assets and liabilities of the Group.

USE OF PROCEEDS

The Company intends to use the proceeds from the Disposal as general working capital for the business operation of the Company such that resources can be concentrated and strengthened for the Company's development and enhancement of the Company's competitiveness or other appropriate investment opportunities as and when appropriate.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 25% but are less than 75%, the entering into of the Equity and Debt Transfer Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, none of the Shareholders have any material interest in the Equity and Debt Transfer Agreement and the transactions contemplated thereunder. Accordingly, none of the Shareholders are required to abstain from voting if the Company were to convene a general meeting for approving the Equity and Debt Transfer Agreement and the transactions contemplated thereunder.

WRITTEN SHAREHOLDER'S APPROVAL

The Company has obtained written shareholders' approval from its controlling shareholder (i.e. Redsun Properties Group (Holdings)) in respect of the Disposal, for approving the Equity and Debt Transfer Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules, in lieu of convening a general meeting of the Company. As at the Latest Practicable Date, Redsun Properties Group (Holdings) directly holds 2,400,000,000 Shares, representing approximately 71.88% of the

issued share capital of the Company. Accordingly, no general meeting will be held for approving the Equity and Debt Transfer Agreement and the transactions contemplated thereunder.

RECOMMENDATION

This circular is despatched to Shareholders for information purposes only. Although no general meeting will be convened, the Directors are of the view that the terms of the Equity and Debt Transfer Agreement and the transactions contemplated thereunder are fair and reasonable, and the entering into of the Equity and Debt Transfer Agreement and the transactions as contemplated thereunder is in the interests of the Company and the Shareholders as a whole. If a general meeting were to be convened for approving the transactions contemplated under the Equity and Debt Transfer Agreement, the Board would recommend the Shareholders to vote in favour of the ordinary resolution to approve the Equity and Debt Transfer Agreement and the transactions contemplated thereunder.

OTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

On behalf of the Board
Redsun Properties Group Limited



Zeng Huansha
Chairman