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Zhongliang Holdings Group Company Limited

中梁控股集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2772)

CONTINUING CONNECTED TRANSACTION

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The Group is pleased to announce that on 12 December 2019 (after trading hours), the Company and Shanghai Zhongliang Quanzhu entered into the Cooperation Framework Agreement, pursuant to which Shanghai Zhongliang Quanzhu Group has agreed to provide design, decoration and outfitting services (including materials procurement) to the Group for a period commencing from 12 December 2019 and ending on 31 December 2021.

LISTING RULES IMPLICATION

As at the date of this announcement, Mr. Yang together with his associates is entitled to exercise 100% voting rights in Shanghai Dazhu which in turn is interested in 56% of the issued share capital of Shanghai Zhongliang Quanzhu. Accordingly, Mr. Yang is a controlling shareholder of Shanghai Zhongliang Quanzhu and Shanghai Zhongliang Quanzhu is a connected person of the Group under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the Cooperation Framework Agreement shall constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the annual caps under the Cooperation Framework Agreement exceed 0.1% but are less than 5%, the Cooperation Framework Agreement and the transactions contemplated respectively thereunder are subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

As disclosed in the prospectus of the Company dated 27 June 2019, Shanghai Zhongliang Quanzhu has been providing design and decoration to the Group since December 2017. As Mr. Yang controlled less than 30% of the voting power at the general meeting of Shanghai Zhongliang Quanzhu, Shanghai Zhongliang Quanzhu was not an associate of Mr. Yang under Chapter 14A of the Listing Rules.

As a result of a further acquisition of 30% equity interest in Shanghai Zhongliang Quanzhu by Shanghai Dazhu which was owned as to 98% and 2% by Mr. Yang and Ms. Xu respectively on 28 November 2019, as at the date of this announcement, Shanghai Zhongliang Quanzhu is owned as to 56% by Shanghai Dazhu. As such, Shanghai Zhongliang Quanzhu is now a connected person of the Group.

As the Group will continue to engage Shanghai Zhongliang Quanzhu Group to provide design, decoration and outfitting services (including materials procurement) to the Group for its property projects from time to time, on 12 December 2019 (after trading hours), the Company and Shanghai Zhongliang Quanzhu entered into the Cooperation Framework Agreement, pursuant to which Shanghai Zhongliang Quanzhu Group has agreed to provide design, decoration and outfitting services (including materials procurement) to the Group for a period commencing from 12 December 2019 and ending on 31 December 2021.

COOPERATION FRAMEWORK AGREEMENT

The principal terms of the Cooperation Framework Agreement are set out as below:

- Date:** 12 December 2019 (after trading hours)
- Parties:** (1) the Company
(2) Shanghai Zhongliang Quanzhu
- Scope of service:** Pursuant to the Cooperation Framework Agreement, Shanghai Zhongliang Quanzhu Group agreed to provide design, decoration and outfitting services (including materials procurement) to the Group
- Term:** For the period commencing from 12 December 2019 and ending on 31 December 2021 (both days inclusive)
- Pricing Policy:** The amount of fees payable by the Group will be determined after arm-length negotiation between the Group and Shanghai Zhongliang Quanzhu Group with reference to the prevailing market condition and the terms offered by Independent Third Parties to the Group for similar services. The terms offered by Shanghai Zhongliang Quanzhu Group shall not be less favourable to the Group than those offered by Independent Third Parties.

The price will be determined in a fair and reasonable manner, based on the various factors including but not limited to experience, technical capabilities, track record and reputation of the parties and government-guidance price by relevant government authorities from time to time.

The detailed terms and conditions, manner of payment, specification, price, quantity and delivery date in relation to each projects shall be determined in each individual agreement.

Payment:

The Group shall pay for the design, decoration and outfitting services provided by Shanghai Zhongliang Quanzhu Group with reference to the value of work completed, certified and accepted by the Group

Annual caps:

Pursuant to the Cooperation Framework Agreement, it is proposed that the annual caps for the transactions contemplated thereunder for the one month ending 31 December 2019 and each of the two financial years ending 31 December 2020 and 2021 are expected not to exceed the following:

	For the one month ending 31 December 2019 RMB'000	For the year ending 31 December 2020 RMB'000	For the year ending 31 December 2021 RMB'000
Annual cap	45,000	489,000	819,000

The proposed annual caps for the transactions contemplated under the Cooperation Framework Agreement were determined after considering the following factors:

- (i) the historical transaction amounts for the provision of the design and decoration to the Group by Shanghai Zhongliang Quanzhu of approximately RMB42,300,000 and RMB143,100,000 for the year ended 31 December 2018 and ten months ended 31 October 2019 prior to Shanghai Zhongliang Quanzhu becoming a connected person of the Group;
- (ii) the expected demand for the provision of the design, decoration and outfitting services (including materials procurement) with reference to the scale and the timing of the property projects to be developed by the Group in the upcoming years; and

- (iii) the estimated contract value of projected new contracts to be entered between the Group and Shanghai Zhongliang Quanzhu Group taking into account the estimated increase in average market prices charged for similar service due to inflation and anticipated increase in cost.

REASONS FOR AND BENEFITS OF ENTERING INTO THE COOPERATION FRAMEWORK AGREEMENT

The Group is a real estate developer in the PRC. Shanghai Zhongliang Quanzhu is primarily engaged in providing the design, decoration and outfitting services in the PRC, and it has been providing such services to the Group since December 2017. Shanghai Zhongliang Quanzhu had been an Independent Third Party of the Group until completion of the acquisition of additional interest in Shanghai Zhongliang Quanzhu by Shanghai Dazhu which took place on 28 November 2019.

As the Group would continue to engage Shanghai Zhongliang Quanzhu Group to provide design and decoration to the Group, the Company and Shanghai Zhongliang Quanzhu entered into the Cooperation Framework Agreement on 12 December 2019. The entering of the Cooperation Framework Agreement is to ensure full compliance with the requirements under Chapter 14A of the Listing Rules.

The Board considers that conducting the transactions contemplated under the Cooperation Framework Agreement would continue to allow the Group to leverage on the experience and expertise of Shanghai Zhongliang Quanzhu Group to meet the Group's requirements of its property projects. The Board is of the view that, having considered the procedures adopted by the Group, and the measures set out under the section headed "Internal Control Measures" in this announcement, the Cooperation Framework Agreement are on normal commercial terms and no less favorable to the Group than those offered by Independent Third Parties for similar services and the transactions under the Cooperation Framework Agreement will be conducted on normal commercial terms and in the interests of the Company and the shareholders as a whole.

INTERNAL CONTROL MEASURES

The Directors are of the view that, in respect of the Cooperation Framework Agreement, the Group has implemented adequate internal control procedures and steps in executing the transaction terms including pricing policy and payment method of the continuing connected transactions under the Cooperation Framework Agreement.

To safeguard the interest of the Group, the Group has adopted and will continue to adopt the following internal control measures:

1. the relevant personnel of the Group will closely monitor the aggregate transactions of the individual agreements of the Group entered under the Cooperation Framework Agreement to ensure that the total consideration does not exceed the stipulated annual caps;

2. prior to entering into an individual agreement contemplated under the Cooperation Framework Agreement, the relevant personnel of the Group will ensure the terms are negotiated on an arm's length basis and will be consistent with the principles and terms of the Cooperation Framework Agreement;
3. the relevant personnel of the Group will conduct regular checks to review and assess whether the transactions contemplated under the relevant continuing connected transactions are conducted in accordance with the terms set out in the Cooperation Framework Agreement and whether the consideration for the transactions are fair and reasonable and in accordance with the pricing policies set out in the Cooperation Framework Agreement;
4. the Company's external auditors will conduct an annual review of the transactions under the Cooperation Framework Agreement to ensure the transactions amount are within the annual caps and the transactions are conducted in accordance with the terms set out in the Cooperation Framework Agreement; and
5. the Company's independent non-executive Directors will conduct an annual review of the status of the transactions under the Cooperation Framework Agreement to ensure the Group has complied with its internal approval process, the terms of the Cooperation Framework Agreement and the relevant Listing Rules.

INFORMATION ON THE PARTIES TO THE COOPERATION FRAMEWORK AGREEMENT

The Group is a real estate developer in the PRC.

Shanghai Zhongliang Quanzhu is principally engaged in the provision of design, decoration and outfitting services including, among others, (i) labor and materials, quality assurance and completion inspection; (ii) decoration service to display units; and (iii) design, decoration and outfitting services for individual property owners.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Mr. Yang and Ms. Xu are the ultimate beneficial owners of Shanghai Dazhu.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Yang together with his associates is entitled to exercise 100% voting rights in Shanghai Dazhu which in turn is interested in 56% of issued share capital of Shanghai Zhongliang Quanzhu. Accordingly, Mr. Yang is a controlling shareholder of Shanghai Zhongliang Quanzhu and Shanghai Zhongliang Quanzhu is a connected person of the Company under Chapter 14A of the Listing Rules.

As such, the transactions contemplated under the Cooperation Framework Agreement shall constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Directors (including the independent non-executive Directors) are of the view that the

terms of the Cooperation Framework Agreement and the transactions contemplated respectively thereunder (including the proposed annual caps therefor) are fair and reasonable, on normal commercial terms and will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

As all of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the annual caps under the Cooperation Framework Agreement exceed 0.1% but are less than 5%, the Cooperation Framework Agreement and the transactions contemplated respectively thereunder are subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Yang and Mr. Xu are considered as having a material interest in the transactions contemplated under the Cooperation Framework Agreement. Accordingly, Mr. Yang and Mr. Xu have abstained from voting on the Board resolutions for approving the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps therefor).

Save as disclosed above, none of the Directors has a material interest in the Cooperation Framework Agreement and is required to abstain from voting on the relevant Board resolutions.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meaning set opposite them below:

“associate(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Zhongliang Holdings Group Company Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	shall have the same meaning as ascribed to it under the Listing Rules
“controlling shareholders”	shall have the meaning as ascribed to it under the Listing Rules
“Cooperation Framework Agreement”	the decoration cooperation framework agreement entered into between the Company and Shanghai Zhongliang Quanzhu on 12 December 2019, details of which are set out under the section headed “Cooperation Framework Agreement” of this announcement

“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Xu”	Mr. Xu Liangqiong (徐亮瓊), an executive Director and the brother-in-law of Mr. Yang
“Mr. Yang”	Mr. Yang Jian (楊劍), the founder and chairman of the Group, and the Company’s controlling shareholder
“Ms. Xu”	Ms. Xu Xiaoqun (徐曉群), the spouse of Mr. Yang and the Company’s controlling shareholder
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Dazhu”	Shanghai Dazhu Management Consulting Co., Ltd.* (上海達築管理諮詢有限公司), a company established in the PRC with limited liability and a Company which Mr. Yang together with his associates owns 100% voting rights
“Shanghai Zhongliang Quanzhu”	Shanghai Zhongliang Quanzhu Residential Technology Co., Ltd.* (上海中梁全築住宅科技有限公司), a company established in the PRC with limited liability and owned by Shanghai Dazhu as to 56%
“Shanghai Zhongliang Quanzhu Group”	Shanghai Zhongliang Quanzhu and its subsidiaries
“Shareholder(s)”	holder(s) of the Share(s)

“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	shall have the same meaning as ascribed to it under the Listing Rules
“substantial shareholder”	shall have the same meaning as ascribed to it under the Listing Rules
“%”	per cent.

By order of the Board
Zhongliang Holdings Group Company Limited
Yang Jian
Chairman

Hong Kong, 12 December 2019

As at the date of this announcement, Mr. Yang Jian, Mr. Huang Chunlei, Mr. Xu Liangqiong and Mr. Ling Xinyu are executive Directors; and Mr. Wang Kaiguo, Mr. Wu Xiaobo and Mr. Au Yeung Po Fung are independent non-executive Directors.

* *For identification purpose only*