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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 and debt stock code: 40845)

INSIDE INFORMATION

UPDATE ON THE HOLISTIC SOLUTION FOR OFFSHORE DEBTS AND BUSINESS DEVELOPMENTS AND PROFIT WARNING

This announcement is made by Zhongliang Holdings Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2)(a), 37.47A, 37.47B and 37.47E of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 13 November 2022 (the “**Announcement**”). Unless otherwise defined, all capitalized terms used in this announcement shall have the same meaning as defined in the Announcement.

I. UPDATE ON THE HOLISTIC SOLUTION FOR OFFSHORE DEBTS

1. Progress of the holistic solution for offshore debts (the “Holistic Solution**”)**

The Company has been actively working with its professional advisors to assess its current financial and operational conditions with a view to formulating the Holistic Solution that respects the rights of all stakeholders and aims to resolve the liquidity issue and stabilise the business and assets of the Group as the onshore operating environment expects to recover over time.

In this regard, the Company has been communicating and constructively engaging with certain holders of the offshore senior notes and other offshore debts issued by the Company to facilitate the formulation of the Holistic Solution with respect to the Company’s offshore debts with an aggregate principal amount of approximately US\$1.18 billion.

As instigated by the independent non-executive directors of the Company, an independent international financial advisory firm has been appointed to evaluate independently the Group’s capital structure, liquidity position and operating conditions

and to analyse the Group's current situation. As at the date of this announcement, the independent international financial advisory firm has prepared the working drafts of the following reports for the Company, and such evaluations and analyses are ongoing:

- (a) independent business review evaluating the Group's financial position and performance by analyses of (i) the general market environment and future trend, (ii) the Group's history and operating model, (iii) the Group's financial position;
- (b) liquidation scenario analysis evaluating the estimated recoveries to the offshore debts of the Company based on a hypothetical liquidation scenario; and
- (c) cashflow forecast analysis commenting on the Group's cashflow projection.

2. Principles of the Holistic Solution

The Company will uphold the following principles in formulating the Holistic Solution:

- to respect offshore creditors' existing rights and to treat all offshore creditors fairly; and
- to achieve a long-term sustainable capital structure and to enhance the Group's adaptiveness to the market changes in order to secure a sustainable future development of the Company and to preserve value for all stakeholders.

3. Potential implementation structure

The Company intends to implement the Holistic Solution by way of scheme(s) of arrangement in Hong Kong and/or Cayman Islands, where applicable.

4. Preliminary key tentative terms

Subject to further considerations by the Company together with its advisers, key tentative terms under the preliminary Holistic Solution may include:

- (a) offering to the Company's offshore unsecured creditors to exchange their offshore debts and accrued but unpaid interest into either: (i) a single or multiple series of new senior notes or (ii) a combination of new senior notes together with new convertible notes (convertible into ordinary shares of the Company). The new senior notes and/or the new convertible notes will have extended maturity (currently considering final maturity not longer than 4 years after the effective date of the scheme of arrangement). The new senior notes will have amortization of principal repayments during the terms of the new notes. It is currently expected that the new convertible notes will not account for more than 20% of the aggregate principal amount of the new senior notes and the new convertible notes;

- (b) cash interest reduction and a grace period of payment-in-kind, in order to provide an appropriate period of time for the Group to restore its operations and liquidity profile. The Company currently considers a grace period of payment-in-kind not longer than the first 12-month period of the new notes and after which it is contemplated that such interest will be paid in cash; and
- (c) an incentive fee to be paid to debt holders consenting to the scheme of arrangement (such amount is expected to be primarily funded by the Company's onshore excess cashflow which is expected to recover due to the current improving policy environment in China).

The Company believes that its proposal of the Holistic Solution if accepted by the debt holders will offer a much better recovery value as compared to the liquidation recovery amount as estimated by the independent international financial advisory firm.

As at the date of this announcement, the Company is still considering the terms of the Holistic Solution and no definitive agreement on the terms of the Holistic Solution have been entered into between the Group and its offshore creditors. The actual terms of the Holistic Solution may deviate from the preliminary tentative terms, depending on the ongoing discussion with the offshore creditors.

5. Next steps

The Company expects to continue its proactive and constructive dialogue with offshore creditors with a view to finalizing the terms of the Holistic Solution as soon as practicable. In this regard, the Company is entering into confidentiality agreements with certain offshore creditors to facilitate their evaluation of the Holistic Solution and the Group's financial and operational conditions.

The Company reiterates that it will maintain active communication with its offshore creditors and encourages them to contact its financial advisors in respect of the progress of the Holistic Solution:

Guotai Junan International

Address: 27/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central,
Hong Kong

Email: dcm.zhonglianglm@gtjas.com.hk

II. UPDATE ON BUSINESS DEVELOPMENTS

1. Ensuring property deliveries and stabilising operations

Facing the difficult condition in the sector, the Group has been working relentlessly to ensure delivery of completed properties, stabilise its business operations and maintain its onshore financing arrangements in order to preserve value for all stakeholders.

During 2022, the Group (together with its joint ventures and associates) completed the delivery of around 70,000 property units. The Group continues to adopt measures to accelerate onshore sales and cash collection, improve operating efficiency, control risks and save costs.

Since the People's Bank of China and the China Banking and Insurance Regulatory Commission in late November 2022 jointly announced the "Notice on Providing Financial Support for the Stable and Healthy Development of the Real Estate Market (關於做好當前金融支持房地產市場平穩健康發展工作的通知)" which outlined 16 supportive initiatives on enhancing financial support for the real estate market, onshore financial institutions are stepping up to meet the reasonable financing needs of the real estate industry. It is expected that it would take some time before their impact and benefits to permeate the sector.

The Company will closely monitor the situation and will endeavour to provide an update to the market as soon as practicable on any material development.

2. Interest-bearing debts and cash position

Based on its unaudited consolidated management accounts, the Group's total interest-bearing debts have been deleveraged to approximately RMB27.2 billion (out of which onshore interest-bearing debts amounted to approximately RMB18.6 billion whereas offshore interest-bearing debts amounted to approximately RMB8.6 billion) as at 31 December 2022, a significant decrease from approximately RMB40.2 billion and RMB30.7 billion as at 31 December 2021 and 30 June 2022, respectively.

Due to the current market condition, the liquidity of the Group is constrained. Based on its unaudited consolidated management accounts, the aggregate cash and bank balances of the Group was approximately RMB17.0 billion as at 31 December 2022. Under the current strict requirement of local government policies, substantially most of the Group's cash are under strict pre-sale cash escrow in designated bank accounts at project-level in order to ensure completion of the properties under development.

III. PROFIT WARNING

Based on the preliminary review of the unaudited consolidated management accounts of the Group for the year ended 31 December 2022 (the "**Year 2022**") and other information currently available to the Company, it is currently expected that the Group may record a profit after taxation but before impairment losses and fair value losses of approximately RMB700 million, representing a decrease by approximately 88% compared to the same recorded for the year ended 31 December 2021 (the "**Year 2021**"). Depending on the results of the impairment assessment on various assets of the Group and the valuation of the Group's

investment properties, the Group may record a loss attributable to owners of between RMB500 million and RMB1.8 billion for the Year 2022, compared to a profit attributable to owners of approximately RMB2.7 billion in Year 2021.

Due to the impacts of the unfavourable macro and real estate market environment in China, the expected loss attributable to owners of the Company during the Year 2022 is mainly attributable to (i) the decrease in the area of properties delivered resulting in the decrease in revenue recognised from sale of properties; (ii) the decrease in gross profit margin due to weak real estate market; (iii) losses from effect of foreign exchange rates; and (iv) increase in impairment on property projects and other assets; and (v) fair value losses on investment properties.

CAUTION

The information contained in this announcement is only based on a preliminary assessment by the management of the Company taking into account the information currently available to the Company, the Company's preliminary review of the unaudited consolidated management accounts of the Group for the Year 2022 and a series of assumptions, and is not based on any figures or information audited or reviewed by the auditors or the audit committee of the Company. The above estimates may therefore be different from the audited consolidated annual results of the Group for the Year 2022.

Holders of securities and potential investors of the Company are advised to read carefully the consolidated annual results announcement of the Group for the Year 2022, which is expected to be published in late-March 2023.

The Company will keep its shareholders, holders of securities and investors informed of any significant developments and further announcement(s) will be made by the Company as and when appropriate or as required under the Listing Rules.

Holders of securities of the Company and potential investors are reminded to consider the related risks and exercise caution when dealing in the securities of the Company.

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

Hong Kong, 17 February 2023

As at the date of this announcement, the Board comprises Mr. Yang Jian, Mr. Chen Hongliang, Mr. He Jian and Mr. Yau Sze Ka (Albert) as executive Directors; and Mr. Wang Kaiguo, Mr. Wu Xiaobo and Mr. Au Yeung Po Fung as independent non-executive Directors.