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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)

CONTINUING CONNECTED TRANSACTIONS

(1) PRE-DELIVERY PROPERTY MANAGEMENT SERVICES AGREEMENT; AND (2) MANAGEMENT SERVICES AGREEMENT

CONTINUING CONNECTED TRANSACTIONS

The Board would like to announce that on 31 December 2019, the Company (for itself and on behalf of its subsidiaries) entered into the Pre-Delivery Property Management Services Agreement with Zhenro Services (for itself and on behalf of its subsidiaries) in relation to the provision of pre-delivery property management services to members of the Group for a term of three years commencing from 1 January 2020 and expiring on 31 December 2022 (both days inclusive). Further, on 31 December 2019, the Company (for itself and on behalf of its subsidiaries) entered into the Management Services Agreement with Zhenro Services (for itself and on behalf of its subsidiaries) in relation to the provision of management and related services for the residential property projects of the Group and their display units, sales offices and community clubhouses as well as commercial properties operated by members of the Group for a term of three years commencing from 1 January 2020 and expiring on 31 December 2022 (both days inclusive).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Zhenro Services is ultimately owned as to approximately 87.3% by ZR Ou (a Controlling Shareholder and father of the Company's non-executive Directors, GQ Ou and GW Ou), approximately 7.7% by GQ Ou (a Controlling Shareholder and Director) and 5% by an independent third party. Hence, Zhenro Services is an associate of Controlling Shareholders and a connected person of the Company. Accordingly, the transactions between Zhenro Services Group and the Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of each of the proposed annual caps for the transactions contemplated under the Pre-Delivery Property Management Services Agreement and the Management Services Agreement, respectively, exceed 0.1% but less than 5%, each of the Pre-Delivery Property Management Services Agreement, the Management Services Agreement and the respective transactions contemplated thereunder are subject to reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Having considered the interest of ZR Ou and GQ Ou, associates of GW Ou, in Zhenro Services as disclosed above, and that each of Mr. Huang Xianzhi and Mr. Chan Wai Kin is a non-executive director of Zhenro Services, each of GQ Ou, GW Ou, Mr. Huang Xianzhi and Mr. Chan Wai Kin, being Directors, has abstained from voting on the resolutions of the Board approving the Pre-Delivery Property Management Services Agreement and the Management Services Agreement, and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the Pre-Delivery Property Management Services Agreement, the Management Services Agreement and the transactions contemplated thereunder.

I. PRE-DELIVERY PROPERTY MANAGEMENT SERVICES AGREEMENT

On 15 December 2017, the Company (for itself and on behalf of its subsidiaries) and Zhenro Group Company (for itself and on behalf of its subsidiaries, including Zhenro Services Group), an associate of ZR Ou, entered into the Existing Pre-Delivery Property Management Services Agreement in relation to the provision of pre-delivery property management services to members of the Group effective from the date of listing of the Company (being 16 January 2018) and up to and including 31 December 2019. Following the restructuring of Zhenro Group Company, the Company (for itself and on behalf of its subsidiaries) entered into the Pre-Delivery Property Management Services Agreement on 31 December 2019 with Zhenro Services (for itself and on behalf of its subsidiaries) in relation to the provision of pre-delivery property management services to members of the Group for a term of three years commencing from 1 January 2020 and expiring on 31 December 2022 (both days inclusive), which may be renewed as the parties may agree, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations.

The principal terms of the Pre-Delivery Property Management Services Agreement are set out below:

Date	:	31 December 2019
Parties	:	(1) Zhenro Services (for itself and on behalf of its subsidiaries) (as services provider) (2) the Company (for itself and on behalf of its subsidiaries) (as services recipient)
Duration	:	1 January 2020 to 31 December 2022 (both days inclusive)
Subject matter	:	Zhenro Services Group shall, where it is selected following the tender processes in accordance with the relevant pre-delivery property management laws and regulations, provide pre-delivery property management services for residential property projects developed by the Group before the delivery of such properties to property owners (including but not limited to security, cleaning, landscaping, repair and maintenance of common area and shared facilities) according to the tender documents and definitive management agreements to be entered into between Zhenro Services Group and members of the Group from time to time.

The definitive management agreements to be entered into between Zhenro Services Group and members of the Group shall only contain provisions which are, in all material aspects, consistent with the binding principles, guidelines, terms and conditions set out in the Pre-Delivery Property Management Services Agreement.

Pricing policy

- : The pre-delivery property management service fees payable by the Group shall be based on the fee quotes to be submitted by Zhenro Services Group under the relevant tender bids and the pricing terms as recommended by the relevant government authorities. The Group will endeavour to solicit at least two independent third parties to participate in the tender process.

As part of the Group's internal procedures, the bids review shall assess (i) the qualification of the potential bidder; (ii) the bidder's relevant experience in the property management service industry; (iii) the price as quoted by the bidder, with reference to the pricing terms as recommended by the relevant government authorities; (iv) the quality of the property management service to be offered; (v) how the service proposal submitted is able to satisfy the Group's specific needs for the relevant property projects; and (vi) whether the service proposal is congruent with the Group's corporate culture. The tender evaluation criteria and the relevant weighting of those criteria are pre-determined before the tender bids are invited. The successful bidder and the service rate it offers will be published on the website of relevant government authorities.

Accordingly, the Directors are of the view that adequate procedures are in place to ensure that the transactions contemplated under the Pre-Delivery Property Management Services Agreement will be conducted on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

Historical Transaction Amounts

The table below summarizes the actual transaction amounts paid by the Group to Zhenro Services Group for pre-delivery property management services for the two years ended 31 December 2018 and the nine months ended 30 September 2019:

	Year ended 31 December 2017	Year ended 31 December 2018	Nine months ended 30 September 2019 (unaudited)
Actual transaction amounts	RMB14.5 million	RMB24.4 million	RMB8.9 million

Proposed Annual Caps

The Board proposes to set the proposed annual caps for the management service fees to be paid by the Group to Zhenro Services Group in relation to the provision of pre-delivery property management services under the Pre-Delivery Property Management Services Agreement for the three years ending 31 December 2022 as follows:

	Year ending 31 December		
	2020	2021	2022
Proposed annual caps	RMB20.0 million	RMB22.0 million	RMB24.0 million

In arriving at the above annual cap, the Group has taken into account the estimated total amounts of management fees payable by the Group in relation to (i) the historical transaction amounts and growth trend of the pre-delivery property management services; (ii) the current residential property projects that it had engaged Zhenro Services Group as pre-delivery property management service provider; (iii) the projected new residential property projects that the Group may engage Zhenro Services Group for pre-delivery property management services for the three years ending December 31, 2022; and (iv) the projected increase in demand for the pre-delivery property management services as a result of the projected growth in the number of residential property projects of the Group. The annual cap is determined with reference to the percentage of the Group's historical pre-delivery management service fees as to its historical annual sales, guidance rate set by the relevant government authorities, the GFA of each property of the relevant residential property projects, and the subsequent projected increase in demand for pre-delivery property management services as a result of the Group's expected growth in the number of its residential property projects.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PRE-DELIVERY PROPERTY MANAGEMENT SERVICES AGREEMENT

As part of the Group's ordinary course of business, before newly developed properties are delivered to future property owners, the Group usually seeks to engage a property management company to provide property management services which typically include security, cleaning, landscaping, repair and maintenance of common area and shared facilities, in order to ensure availability of property management services before the property owners' association could be lawfully established which could enter into a contract with the property management company directly. The term of the pre-delivery property management services shall end when the relevant property owners' association of the residential property project is established and new property management service agreement between the relevant property owners' association and their selected property management service provider is signed, as the property owners are responsible for the payment of property management fees after delivery of the relevant properties.

The Group has been engaging Zhenro Services Group for the provision of pre-delivery property management services for most of its residential property projects, by way of tender in accordance with the relevant pre-delivery property management laws and regulations for a number of years. Based on the established long-term cooperation relationship between Zhenro Services Group and the Group, Zhenro Services Group has a track record of providing reliable, efficient and satisfactory pre-delivery property management services to the Group. As compared to other services providers who are independent third parties, it generally maintains better and more efficient communication with the Group and more thorough understanding of the conditions of the Group's residential property projects and the requirements of the services needed.

Given the reasons above, the Directors (including the independent non-executive Directors) consider that the entering into of the Pre-Delivery Property Management Services Agreement and the transactions contemplated thereunder are conducted on normal commercial terms, are entered into in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

II. MANAGEMENT SERVICES AGREEMENT

On 15 December 2017, the Company (for itself and on behalf of its subsidiaries) and Zhenro Group Company (for itself and on behalf of its subsidiaries, including Zhenro Services Group), an associate of ZR Ou, entered into the Existing Management Services Agreement in relation to the provision of management and related services to the display units, sales offices and community clubhouses of the Group's properties under development effective from the date of listing of the Company (being 16 January 2018) and up to and including 31 December 2019. Following the restructuring of Zhenro Group Company, the Company (for itself and on behalf of its subsidiaries) entered into the Management Services Agreement on 31 December 2019 with Zhenro Services (for itself and on behalf of its subsidiaries) in relation to the provision of management and related services to the residential property projects of the Group and their display units, sales offices and community clubhouses as well as commercial properties operated by members of the Group for a term of three years commencing from 1 January 2020 and expiring on 31 December 2022 (both days inclusive), which may be renewed as the parties may agree, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations.

The principal terms of the Management Services Agreement are set out below:

Date	:	31 December 2019
Parties	:	(1) Zhenro Services (for itself and on behalf of its subsidiaries) (as services provider) (2) the Company (for itself and on behalf of its subsidiaries) (as services recipient)
Duration	:	1 January 2020 to 31 December 2022 (both days inclusive)

Subject matter : Zhenro Services Group shall provide management and related services to the residential property projects of the Group and their display units, sales offices and community clubhouses as well as commercial properties operated by the Group, including but not limited to cleaning, landscaping, concierge, maintenance of public order, security services and other related value-added services to the aforesaid venues according to the definitive management agreements to be entered into between Zhenro Services Group and members of the Group from time to time.

The definitive management agreements to be entered into between Zhenro Services Group and members of the Group shall only contain provisions which are, in all material aspects, consistent with the binding principles, guidelines, terms and conditions set out in the Management Services Agreement.

Pricing policy : The management fees to be charged by Zhenro Services Group will take into account a wide range of factors such as the nature, age, infrastructure features, size, location and neighborhood profile of the property projects, the scope of services to be provided and the anticipated operational costs (including labor costs, material costs and administrative costs) with reference to the fees quoted by other independent services providers providing comparable services to the Group and fees for similar services and type of projects in the market.

The marketing department and the customer service department of the Company will endeavor to seek quotations from at least two independent management services providers with the qualification to offer property management services in that city who offer the same or comparable services, and will only engage Zhenro Services Group as the management services provider if the price and quality of the management services are comparable to or more favorable to the Group than those offered by the independent management services providers.

Accordingly, the Directors are of the view that adequate procedures are in place to ensure that the transactions contemplated under the Management Services Agreement will be conducted on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

Historical Transaction Amounts

The table below summarizes the actual transaction amounts paid by the Group to Zhenro Services Group for management services for the two years ended 31 December 2018 and the nine months ended 30 September 2019:

	Year ended 31 December 2017	Year ended 31 December 2018	Nine months ended 30 September 2019 (unaudited)
Actual transaction amounts	RMB82.5 million	RMB105.9 million	RMB135.6 million

Proposed Annual Caps

The Board proposes to set the proposed annual caps for the management service fees to be paid by the Group to Zhenro Services Group in relation to the provision of management services under the Management Services Agreement for the three years ending 31 December 2022 as follows:

	Year ending 31 December		
	2020	2021	2022
Proposed annual caps	RMB250.0 million	RMB280.0 million	RMB310.0 million

In arriving at the above annual cap, the Group has taken into account the estimated total amounts of management fees payable by the Group in relation to (i) the historical transaction amounts and growth trend of the management services; (ii) the current residential and commercial property projects which it had engaged Zhenro Services Group as management services provider; (iii) the projected new residential and commercial property projects that the Group may engage Zhenro Services Group for management services for the three years ending December 31, 2022; and (iv) the projected increase in demand for the management services as a result of the projected growth in the number of residential property projects of the Group. The annual cap is determined with reference to the total GFA, geographical locations, facilities and human resources allocation of the relevant display units, sales offices and community clubhouses, the percentage of the historical management service fees as to the Group's historical annual sales, and the subsequent projected increase in demand for management services to display units, sales offices and community clubhouses as a result of the expected growth in the number of the Group's residential property projects.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MANAGEMENT SERVICES AGREEMENT

Due to the foot traffic at the display units, sales offices and community clubhouses of residential property projects and for the Group to better focus on the businesses of property development, property leasing and commercial operational services, the Group typically engages property management companies to provide constant management services such as cleaning, security, maintenance and concierge services. The Group had selected management services providers mainly through comparing fee quotes offered by several management service providers in each residential and commercial property projects. Taking into account various factors such as credentials, fee quote and quality of services, Zhenro Services Group had been engaged by the Group as the management services provider for the Group's residential property projects and their display units, sales offices and community clubhouses as well as commercial properties operated by the members of the Group for a number of years.

Based on the established long-term cooperation relationship between Zhenro Services Group and the Group, Zhenro Services Group has a track record of providing reliable, efficient and satisfactory management services to the Group. As compared to other services providers who are independent third parties, it generally maintains better and more efficient communication with the Group and more thorough understanding of the Group's requirements of the services needed.

Given the reasons above, the Directors (including the independent non-executive Directors) consider that the entering into of the Management Services Agreement and the transactions contemplated thereunder are conducted on normal commercial terms, are entered into in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Zhenro Services is ultimately owned as to approximately 87.3% by ZR Ou (a Controlling Shareholder and father of the Company's non-executive Directors, GQ Ou and GW Ou), approximately 7.7% by GQ Ou (a Controlling Shareholder and Director) and 5% by an independent third party. Hence, Zhenro Services is an associate of Controlling Shareholders and a connected person of the Company. Accordingly, the transactions between Zhenro Services Group and the Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of each of the proposed annual caps for the transactions contemplated under the Pre-Delivery Property Management Services Agreement and the Management Services Agreement exceed 0.1% but less than 5%, each of the Pre-Delivery Property Management Services Agreement, the Management Services Agreement and the respective transactions contemplated thereunder are subject to reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Having considered the interest of ZR Ou and GQ Ou, associates of GW Ou, in Zhenro Services as disclosed above, and that each of Mr. Huang Xianzhi and Mr. Chan Wai Kin is a non-executive director of Zhenro Services, each of GQ Ou, GW Ou, Mr. Huang Xianzhi and Mr. Chan Wai Kin, being Directors, has abstained from voting on the resolutions of the Board approving the Pre-Delivery Property Management Services Agreement and the Management Services Agreement, and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the Pre-Delivery Property Management Services Agreement, the Management Services Agreement and the transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

To ensure the terms of the transactions under the Pre-Delivery Property Management Services Agreement and Management Services Agreement are in line with the prevailing market practice, on normal commercial terms, fair and reasonable and no less favourable than the terms provided by other independent third party suppliers, and the annual transaction amounts under the Pre-Delivery Property Management Services Agreement and Management Services Agreement will not exceed the respective proposed annual caps, the Group had/will adopt the following internal control measures:

- (i) with respect to pre-delivery property management services for the Group's residential property projects, the Group will endeavour to solicit at least two independent third parties to participate in the tender process;
- (ii) with respect to management services for the Group's commercial and residential property projects, the Group will obtain from Zhenro Services Group and at least two other independent third party service providers quotations in respect of similar services and will only engage Zhenro Services Group as the management services provider if the price and quality of the management services are comparable to or more favorable to the Group than those offered by the independent management services providers;
- (iii) the Director(s) and/or the Shareholder(s) with an interest in the relevant transaction(s) shall abstain from voting in respect of the resolution(s);
- (iv) the transactions contemplated under the Pre-Delivery Property Management Services Agreement and Management Services Agreement will be properly recorded, including but not limited to prices determined and transaction amounts;
- (v) the Company will closely monitor the transaction amounts under the Pre-Delivery Property Management Services Agreement and Management Services Agreement to ensure that the respective proposed new caps will not be exceeded; and
- (vi) the independent non-executive Directors will review and confirm whether the transactions contemplated under the Pre-Delivery Property Management Services Agreement and Management Services Agreement are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The independent non-executive Directors will conduct an annual review of the status of the transactions under the Pre-Delivery Property Management Services Agreement and Management Services Agreement to ensure the Group has complied with the Listing Rules.

INFORMATION ON THE GROUP AND ZHENRO SERVICES GROUP

The Group is principally engaged in property development, property leasing and commercial property operation.

Zhenro Services is an investment holding company and its subsidiaries are primarily engaged in the provision of property management services for residential and non-residential properties in the PRC.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms shall have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Group”	the Company and its subsidiaries
“Company”	Zhenro Properties Group Limited (正榮地產集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6158)
“connected person(s)”	has the meanings as ascribed thereto under the Listing Rules
“Continuing Connected Transaction”	the continuing connected transaction of the Group under Chapter 14A of the Listing Rules as set out in this announcement
“Controlling Shareholder(s)”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Management Services Agreement”	the management services agreement dated 15 December 2017 entered into between the Company and Zhenro Group Company (for itself and on behalf of its subsidiaries) in relation to the provision of management and related services to the display units, sales offices and community clubhouses of the Group’s properties under development effective from the date of listing of the Company (being 16 January 2018) and up to and including 31 December 2019
“Existing Pre-Delivery Property Management Services Agreement”	the pre-delivery property management services agreement dated 15 December 2017 entered into between the Company and Zhenro Group Company (for itself and on behalf of its subsidiaries) in relation to the provision of pre-delivery property management services to members of the Group effective from the date of listing of the Company (being 16 January 2018) and up to and including 31 December 2019
“GFA”	gross floor area
“GQ Ou”	Mr. Ou Guoqiang, one of the Controlling Shareholders and a non-executive Director. He is son of ZR Ou and brother of GW Ou

“GW Ou”	Mr. Ou Guowei, one of the Controlling Shareholders and a non-executive Director. He is son of ZR Ou and brother of GQ Ou
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Management Services Agreement”	a management services agreement dated 31 December 2019 entered into between the Company and Zhenro Services (for itself and on behalf of its subsidiaries) in relation to the provision of management and related services to the residential property projects of the Group and their display units, sales offices and community clubhouses as well as commercial properties operated by members of the Group for a term of three years commencing from 1 January 2020 and expiring on 31 December 2022 (both days inclusive)
“PRC”	the People’s Republic of China
“Pre-Delivery Property Management Services Agreement”	a pre-delivery property management services agreement dated 31 December 2019 entered into between the Company and Zhenro Services (for itself and on behalf of its subsidiaries) in relation to the provision of pre-delivery property management services to members of the Group for a term of three years commencing from 1 January 2020 and expiring on 31 December 2022 (both days inclusive)
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary shares of par value of US\$0.00001 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhenro Group Company”	Zhenro Group Co., Ltd. (正榮集團有限公司), a company established in the PRC and is owned as to 91.90% by ZR Ou and 8.10% by GQ Ou
“Zhenro Services”	Zhenro Services Group Limited (正榮服務集團有限公司), a company incorporated in the Cayman Islands with limited liability and is ultimately owned as to approximately 87.3% by ZR Ou, approximately 7.7% by GQ Ou and 5% by an independent third party.

“Zhenro Services Group”	Zhenro Services and its subsidiaries
“ZR Ou”	Mr. Ou Zongrong, one of the Controlling Shareholders, father of the Company’s non-executive Directors, GQ Ou and GW Ou
“%”	per cent

By order of the Board
Zhenro Properties Group Limited
Huang Xianzhi
Chairman

Hong Kong, 31 December 2019

As at the date of this announcement, the executive directors of the Company are Mr. Huang Xianzhi and Mr. Chan Wai Kin, the non-executive directors of the Company are Mr. Ou Guoqiang and Mr. Ou Guowei, and the independent non-executive directors of the Company are Mr. Loke Yu (alias Loke Hoi Lam), Mr. Lin Hua and Mr. Wang Chuanxu.