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SHANGHAI ZENDAI PROPERTY LIMITED

上海証大房地產有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 755)

PROPOSED MANDATE IN RELATION TO THE POSSIBLE VERY SUBSTANTIAL DISPOSAL OF THE ENTIRE EQUITY INTEREST IN A SUBSIDIARY IN HAIMEN AND THE SALE LOANS

THE PROPOSED DISPOSAL

On 17 January 2020, the Board resolved to seek the Proposed Mandate for conducting the Proposed Disposal by way of a public tender through SUAEE.

The minimum bidding price for the Proposed Disposal is RMB1,582.9 million (equivalent to approximately HK\$1,770.6 million), comprising (i) the consideration for the Sale Shares of RMB760.0 million (equivalent to approximately HK\$850.1 million); and (ii) the consideration for the Sale Loans of RMB822.9 million (equivalent to approximately HK\$920.5 million).

The Consideration, i.e. the final consideration for the Proposed Disposal, will depend on the final bid price offered by the successful bidder, but in any event will be no less than the minimum bidding price.

Once a successful bidder for the Sale Shares and the Sale Loans has been identified, the Company will thereupon become unconditionally obliged to enter into the SPA with such successful bidder for the Proposed Disposal and, subject to the terms and conditions thereunder, complete the Proposed Disposal. As such, the Company would not be able at the time to seek the approval of the Shareholders as required under Chapter 14 of the Listing Rules. Accordingly, the Board would like to seek the approval of the Proposed Mandate from the Shareholders at the SGM in advance so as to conduct the Proposed Disposal.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Disposal is above 75%, the Proposed Disposal constitutes a very substantial disposal of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular containing, among other things, (i) details of the Proposed Disposal; (ii) the valuation report on the Properties issued by an independent valuer; (iii) a notice convening the SGM; and (iv) other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 16 March 2020 in order to allow sufficient time for the preparation of such relevant information for inclusion in the circular.

THE PROPOSED DISPOSAL

On 17 January 2020, the Board resolved to seek the Proposed Mandate for conducting the Proposed Disposal by way of a public tender through SUAEE.

Assets to be disposed of

- (i) the Sale Shares being the entire equity interest in the Disposal Company as at the date of the announcement; and
- (ii) the Sale Loans owed by the Disposal Group to Zendai Real Estate and its affiliated companies as at 31 December 2019.

Basis of Consideration and payment terms for the Proposed Disposal

The minimum bidding price for the Proposed Disposal is RMB1,582.9 million (equivalent to approximately HK\$1,770.6 million), comprising (i) the consideration for the Sale Shares of RMB760.0 million (equivalent to approximately HK\$850.1 million); and (ii) the consideration for the Sale Loans of RMB822.9 million (equivalent to approximately HK\$920.5 million).

The Consideration, i.e. the final consideration for the Proposed Disposal, will depend on the final bid price offered by the successful bidder, but in any event will be no less than the minimum bidding price.

The minimum bidding price, being the minimum total consideration for the Sale Shares and the Sale Loans, was determined with reference to (i) the Adjusted NAV as at 31 December 2019 of approximately RMB944.3 million (equivalent to approximately HK\$1,056.3 million); (ii) the outstanding amount of the Sale Loans as at 31 December 2019 of approximately RMB822.9 million (equivalent to approximately HK\$920.5 million); and (iii) the recent financial performance of the Disposal Group as further elaborated in the section headed “Reasons for and the benefits of the Proposed Disposal and the use of proceeds” below.

The minimum bidding price represents a discount of approximately 10.4% to the aggregate value of the Adjusted NAV and the Sale Loans in the amount of approximately RMB1,767.2 million (equivalent to approximately HK\$1,976.8 million). The Board considers that it is common to offer a moderate discount in order to increase the attractiveness of the public tender to potential bidders for a more competitive bid and is of the view that the minimum bidding price is fair and reasonable.

The Consideration shall be settled by the successful bidder in the following manner:

- (i) as to 30% of the Consideration (inclusive of the earnest money in the amount of RMB50 million to be paid prior to the closing of the tender for the Proposed Disposal in order to become a potential bidder as required by SUAEE, which would be applied towards settling part of the Consideration) to be paid within 30 days (or such other date as may be agreed by the parties to the SPA) upon entering into the SPA;
- (ii) as to 30% of the Consideration to be paid within 60 days (or such other date as may be agreed by the parties to the SPA) upon entering into the SPA; and
- (iii) as to 40% of the Consideration to be paid within 90 days (or such other date as may be agreed by the parties to the SPA) upon entering into the SPA.

Completion of the Proposed Disposal shall only take place after the Consideration has been settled in full by the successful bidder in the above manner.

The Proposed Disposal will be carried out through SUAEE. SUAEE is a comprehensive equity exchange service institution approved by the Shanghai People's Government (上海市人民政府) and designated by the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government (上海市國有資產監督管理委員會) to engage in the transfer of state-owned equities of central enterprises. After obtaining the Shareholders' approval for the Proposed Mandate at the SGM, the Group will commence the formal process of public tender for the Proposed Disposal by submission of a tender notice to SUAEE setting out, inter alia, (i) the minimum bidding price for the Proposed Disposal; (ii) the principal terms of the tender; and (iii) qualification requirements of potential bidders, which is expected to take place within 2 to 4 weeks from the date of SGM.

Once the tender notice for the Proposed Disposal is published, the publication period will commence and open for around 20 days. During the publication period, qualified bidders may register themselves as interested bidders in order to submit their respective bidding price to SUAEE by the end of the publication period.

Upon expiry of the publication period, SUAEE will notify the Company the identity of the successful bidder who offers the highest bidding price among the interested bidders. Based on the normal tendering procedures under SUAEE, it is expected that the whole tender process for the Proposed Disposal (from the publication of the tender notice to the notification of the successful bidder) shall last for around 50 days. The Company will then enter into the SPA in relation to the Proposed Disposal with the successful bidder within two weeks and to complete the Proposed Disposal in accordance with the terms and conditions of the SPA, which is expected to take place within 15 weeks upon execution of the SPA.

Qualifications of bidders

The qualified bidders shall satisfy, amongst others, the following qualifications:

- 1. the qualified bidder shall be financially sound and solvent;
- 2. the qualified bidder shall have good business credibility;
- 3. the qualified bidder shall be a validly established enterprise or a natural person, who shall have full civil capacity; and
- 4. other qualifications stipulated under the laws and regulations of the PRC.

Conditions precedent to the Proposed Disposal

The entering into of the Proposed Disposal shall be conditional upon the Company having completed all filing procedures and obtained all necessary consents and approvals regarding the Proposed Disposal including the approval by the Shareholders in respect of the Proposed Mandate at the SGM.

Once a successful bidder for the Sale Shares and the Sale Loans has been identified, the Company will thereupon become unconditionally obliged to enter into the SPA with such successful bidder for the Proposed Disposal and, subject to the terms and conditions thereunder, complete the Proposed Disposal. As such, the Company would not be able at the time to seek the approval of the Shareholders as required under Chapter 14 of the Listing Rules. Accordingly, the Board would like to seek the approval of the Proposed Mandate from the Shareholders at the SGM in advance so as to conduct the Proposed Disposal.

Spin-off of the Excluded Company

As at the date of this announcement, the Excluded Company was owned as to 70% by the Disposal Company. It is intended that the Excluded Company shall be spun off from the Disposal Company in accordance with the relevant laws in the PRC for the Proposed Disposal such that the Excluded Company shall not be part of the Tender. In the event that spin-off of the Excluded Company has not yet been completed prior to the submission of the tender notice and/or the entering into of the SPA, terms relating to the spin-off will be included in such notice and/or the SPA. The Company shall use its best endeavor to procure that the Excluded Company be spun off before 30 June 2020. For the avoidance of doubt, completion of the Proposed Disposal shall not be conditional on completion of the spin-off of the Excluded Company.

INFORMATION ON THE DISPOSAL GROUP

The Disposal Company is a company incorporated in the PRC in 2003 with limited liability. The Disposal Group is principally engaged in the development of the Properties. The Properties are located in the Haimen Riverside New City District of Haimen city, the PRC, being in the south of Yangtze River, north of Haining Temple and east of the new administrative center and central business district in Haimen city. As at the date of this announcement, the Properties comprise of (i) undeveloped land parcels with a total site area of approximately 449,799 square metres; (ii) properties under development and properties for sale with a total gross floor area of approximately 274,842 square metres; and (iii) industrial and greening land parcels with a total site area of approximately 133,336 square metres with two commercial buildings and two factories erected thereon.

As at the date of this announcement, the Disposal Group is held as to 90.91% and 9.09% by Myway Developments and Zendai Real Estate, which are direct and indirect wholly-owned subsidiaries of the Company, respectively.

Set out below is the unaudited consolidated financial information of the Disposal Group for the two years ended 31 December 2018 and 2019 prepared according to the Hong Kong Financial Reporting Standards.

	For the year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>
Loss before taxation	(4,625)	(3,812)
Loss after taxation	(5,694)	(4,876)

The unaudited consolidated net liabilities of the Disposal Group as at 31 December 2019 amounted to approximately RMB5.3 million (equivalent to approximately HK\$5.9 million). The Adjusted NAV as at 31 December 2019, which has taken into account the valuation gain based on the valuation of the Properties as of 31 December 2019 and the consolidation adjustment (details of which are set out in the sub-section headed “Financial effect of the Proposed Disposal”), amounted to approximately RMB944.3 million (equivalent to approximately HK\$1,056.3 million).

FINANCIAL EFFECT OF THE PROPOSED DISPOSAL

Upon completion of the Disposal, each member of the Disposal Group will cease to be a subsidiary of the Company and each of their respective financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group. Assuming the final bid price will be equivalent to the minimum bidding price, the Group expects to record a gain from the Proposed Disposal of approximately RMB767.5 million (equivalent to approximately HK\$858.5 million) (subject to audit), which is calculated with reference to (i) the difference between (a) the minimum bidding price of RMB1,582.9 million (equivalent to approximately HK\$1,770.6 million) and (b) the aggregate of the unaudited net liabilities value of the Disposal Group as at 31 December 2019 of approximately RMB5.3 million (equivalent to approximately HK\$5.9 million), the outstanding amount of the Sale Loans as at 31 December 2019 of approximately RMB822.9 million (equivalent to approximately HK\$920.5 million) and, the consolidation adjustments including the capitalisation of borrowing cost allocated on the Disposal Group at the Group consolidation level of approximately RMB63.7 million (equivalent to approximately HK\$71.2 million), and the balance of consideration adjustment resulted from the initial purchase of the Properties owned by the Disposal Company at the Group consolidation level of approximately RMB8.1 million (equivalent to approximately HK\$9.1 million); and (ii) the exchange gain to be released as a result of the Proposed Disposal from the foreign exchange reserve of the Group as at 31 December 2019 of approximately HK\$82.8 million.

Shareholders should note that the actual amount of the gain from the Proposed Disposal to be recognized in the consolidated financial statements of the Group depends on, among others, the final bid price of the public tender, the net asset value of the Disposal Group and the then exchange rate for converting the amount of the Sale Loans dominated in RMB into HK\$ on the date of completion of the Proposed Disposal, and therefore will be subject to final audit.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL AND THE USE OF PROCEEDS

The Group is principally engaged in property development, property investment and provision of property management and hotel operation in the PRC. The Group currently has commercial property and residential projects in various cities in the PRC and majority of which are located in Shanghai and Nanjing. As disclosed in the interim report of the Company for the six months ended 30 June 2019, the Group continued adhere to its development strategy to extensively develop the first and second tier cities while gradually stripping off its business from the third and fourth tier cities by focusing on key development areas in first and second tier cities such as Shanghai and Nanjing. With the solid domestic presence in Shanghai and Nanjing built over the years, the Group will steadily expand across the country and launch new development projects within the core strategic areas to fully explore local market demands.

The Properties were acquired by the Group in 2003. The Properties, which comprise certain undeveloped land parcels with a total site area of approximately 449,799 square meters and properties under development and properties for sale with a total gross floor area of approximately 274,842 square meters, are located in Haimen Development Zone, which is close to the suburban area at Haimen city, Jiangsu province of the PRC, and were planned to be developed for residential, commercial and recreational use. As at the date of this announcement, the investment by the Group on the Disposal Company since its establishment in 2003 has not yet been recovered. Further, the Disposal Group has continuously been loss making over the last few years. It is expected that upon completion of the Proposed Disposal, the Company would be able to enhance its working capital position and therefore reduces negative impacts on the Group. The location of the Properties, which is outside its key development areas, enables the Company to reallocate its resources to focus on other property development projects in the first and second tier cities which is in line with its business strategy. Based on the market conditions of Haimen, the Board is of the view that this represents a good opportunity to dispose of the Properties, and that conducting the Proposed Disposal through SUAEE could attract more potential bidders for a more competitive bid of the Disposal Group.

The Group's gearing ratio recorded an increase from approximately 2.7 times as at 31 December 2018 to approximately 3.3 times as at 30 June 2019. As at 30 June 2019, the Group's borrowings which were repayable within one year amounted to approximately HK\$1,747.8 million. For the year ended 31 December 2018, the finance costs of the Group amounted to approximately HK\$805.1 million of which approximately HK\$361.1 million was attributable to bank borrowings. The Board considers that the proceeds from the Proposed Disposal could be used for repayment of partial bank borrowings, thereby improving the gearing of the Group, as well as reducing the relevant finance costs, which would enhance the financial performance of the Group.

Based on the minimum bidding price, the gross proceeds from the Proposed Disposal are expected to be approximately RMB1,582.9 million (equivalent to approximately HK\$1,770.6 million) and net proceeds (after deducting the related transaction costs and expenses) are expected to be approximately RMB1,574.0 million (equivalent to approximately HK\$1,760.7 million). The Group intends to apply the net proceeds as to approximately RMB1,270.0 million (equivalent to approximately HK\$1,420.6 million) for repayment of bank borrowings and as to approximately RMB304.0 million (equivalent to approximately HK\$340.1 million) for general working capital of the Group.

Based on the above, the Directors considers that the terms of the Proposed Disposal will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Disposal is above 75%, the Proposed Disposal constitutes a very substantial disposal of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

A circular containing, among other things, (i) details of the Proposed Disposal; (ii) the valuation report on the Properties issued by an independent valuer; (iii) a notice convening the SGM; and (iv) other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 16 March 2020 in order to allow sufficient time for the preparation of such relevant information for inclusion in the circular.

DEFINITIONS

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

“Adjusted NAV”	the adjusted unaudited consolidated net assets of the Disposal Group which has taken into account the valuation gain based on the valuation of the Properties as of 31 December 2019 in the appraised value of approximately RMB3,073.1 million (equivalent to approximately HK\$3,437.6 million) and the consolidation adjustments including the capitalisation of borrowing cost allocated on the Disposal Group at the Group consolidation level of approximately RMB63.7 million (equivalent to approximately HK\$71.2 million), the balance of consideration adjustment resulted from the initial purchase of the Properties owned by the Disposal Company at the Group consolidation level of approximately RMB8.1 million (equivalent to approximately HK\$9.1 million)
“Board”	the board of Directors of the Company
“Company”	Shanghai Zendai Property Limited, an exempt company incorporated in Bermuda, the Shares of which are listed on the Stock Exchange
“Consideration”	the final bid price with respect to the Sale Shares and the Sale Loans offered by the successful bidder, but in any event will be no less than the minimum bidding price
“Director(s)”	the director(s) of the Company
“Disposal Company”	海門証大濱江置業有限公司 (Haimen Zendai Binjiang Real Estate Co., Ltd.*), a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
“Disposal Group”	the Disposal Company and its subsidiaries (excluding the Excluded Company)

“Excluded Company”	煙台証大大拇指置業有限公司 (Yantai Zendai Thumb Property Co., Ltd.*), a company owned as to 70% by the Disposal Company as at the date of this announcement
“Group”	the Company and its subsidiaries
“Haimen Development Zone”	Haimen Economic and Technological Development Zone, an area founded in 1992 is one of the first batch of Jiangsu’s provincial-level development zones
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Myway Developments”	Myway Developments Limited, a investment holding company established in the British Virgin Islands with limited liability and is a direct wholly-owned subsidiary of the Company
“PRC”	the Peoples’ Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Properties”	the properties owned by the Disposal Group
“Proposed Disposal”	the proposed public tender for disposal of the Sale Shares and Sale Loans through SUAEE
“Proposed Mandate”	the general mandate to be granted in advance to the Directors to enter into and complete the Proposed Disposal by the Shareholders at the SGM
“RMB”	Renminbi, the lawful currency in the PRC
“Sale Loans”	the outstanding shareholders’ loans owed by the Disposal Group to Zendai Real Estate and its affiliated companies (excluding the portion owed by the Excluded Company)
“Sale Shares”	the entire equity interest of the Disposal Company (excluding the Excluded Company)
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, granting the Proposed Mandate to the Directors
“Share(s)”	the issued share(s) of the Company
“Shareholder(s)”	the holder(s) of the Share(s)

“SPA”	the sale and purchase agreement to be entered into between the Company and the successful bidder in relation to the Proposed Disposal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SUAAEE”	Shanghai United Assets and Equity Exchange (上海聯合產權交易所)
“Zendai Real Estate”	上海証大置業有限公司 (Shanghai Zendai Real Estate Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“%”	per cent.

By order of the Board
Shanghai Zendai Property Limited
Mr. Wang Letian
Chairman

Hong Kong, 2 February 2020

For the purpose of this announcement, unless otherwise indicated, the exchange rate at RMB1 = HK\$1.1186 has been used, where applicable, for the purpose of illustration only and not constitute a representation that any amounts have been, could have been or may be exchanged.

As at the date of this announcement, the executive Directors are Mr. Wang Letian, Mr. Qin Renzhong, Mr. Zhang Huagang and Mr. Tang Jian. The non-executive Directors are Ms. Wang Zheng, Mr. Gong Ping and Ms. Jiang Zhengyan. The independent non-executive Directors are Mr. Chow Alexander Yue Nong, Dr. Xu Changsheng, Mr. Ng Man Kung, Mr. How Sze Ming and Dr. Di Ruipeng.

* For identification purpose only