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POLY PROPERTY SERVICES CO., LTD.

保利物業服務股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 06049)

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

2022 PROPERTY LEASING AGREEMENT

On 31 December 2021, Poly Business Commercial Property, a wholly-owned subsidiary of the Company, as lessee, entered into the 2022 Property Leasing Agreement with Poly Developments and Holdings, as landlord, to renew the connected transactions under the 2020 Property Leasing Agreement, for a lease term from 1 January 2022 to 31 December 2031.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Poly Developments and Holdings is interested in an aggregate of 72.289% of the total issued share capital of the Company, and is a controlling Shareholder of the Company and a connected person of the Company under the Listing Rules. Accordingly, the 2022 Property Leasing Agreement and the transactions contemplated thereunder will constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios in respect of the value of right-of-use assets for the guaranteed rent portion and the relevant highest annual cap for the subleasing income in respect of the subleasing to connected persons by the Group under the 2022 Property Leasing Agreement calculated pursuant to the Listing Rules are more than 0.1% but less than 5%, the Company is only subject to the reporting, announcement and annual review requirements but is exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In addition, as the highest applicable percentage ratio in respect of the relevant highest annual cap for the shared rent portion under the 2022 Property Leasing Agreement calculated pursuant to the Listing Rules is less than 0.1%, the Company is fully exempted from the reporting, announcement, annual review and independent Shareholders' approval requirements for the shared rent portion under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the 2022 Property Leasing Agreement exceeds three years, the Company has appointed the Independent Financial Adviser to elaborate the reasons for the longer duration, and to confirm that it is normal business practice for agreements of this type to be of such duration.

INTRODUCTION

References are made to the Company's announcements dated (i) 16 October 2020 in relation to the entering into of the 2020 Property Leasing Agreement; and (ii) 1 April 2021 in relation to, among others, amending the 2020 Property Leasing Agreement to terminate the leases of the properties separately covered by the Poly Developments Property Leasing Agreement. As the 2020 Property Leasing Agreement will expire on 31 December 2021, on 31 December 2021, Poly Business Commercial Property, a wholly-owned subsidiary of the Company, as lessee, entered into the 2022 Property Leasing Agreement with Poly Developments and Holdings, as landlord, to renew the connected transactions in relation to Poly Zhongke Plaza (保利中科廣場) under the 2020 Property Leasing Agreement, for a lease term from 1 January 2022 to 31 December 2031.

1. 2022 PROPERTY LEASING AGREEMENT

The principal terms of the 2022 Property Leasing Agreement are set out below:

Date	:	31 December 2021
Parties	:	(i) Poly Business Commercial Property; and (ii) Poly Developments and Holdings
Subject Property	:	Poly Zhongke Plaza (保利中科廣場) at Nos. 101, 105 and 107 Lanyue Road, Luogang Science City, Huangpu District, Guangzhou (廣州市黃埔區蘿崗科學城攬月路101號、105號及107號)
Lease term	:	From 1 January 2022 to 31 December 2031.
Subject matter	:	Poly Developments and Holdings agreed to lease the Subject Property owned by it to Poly Business Commercial Property for operation and management on an as-is basis.
Rental expense and payment arrangement	:	The rent payable under the 2022 Property Leasing Agreement will be paid in the form of "guaranteed rent + shared rent".

Guaranteed rent

Poly Business Commercial Property shall make a one-off payment of approximately RMB97.48 million in respect of the total guaranteed rent for the entire lease term within 15 days after the effective date of the 2022 Property Leasing Agreement.

Shared rent

The excess of the actual operating income from the Subject Property over the amount of guaranteed rent during the lease term will be shared between both parties at the ratio of 50%:50%. The actual rent is settled on a calendar year basis. Poly Business Commercial Property shall complete the calculations by 25 December of each year, and both parties will settle the actual amount upon confirmation by Poly Developments and Holdings.

The amount of the guaranteed rent and the sharing ratio under the 2022 Property Leasing Agreement have been arrived after arm's length negotiations between the parties and have been determined with reference to, among other things, factors such as the actual rental income in the past and the terms of existing leasing contracts.

The rent under the 2022 Property Leasing Agreement is expected to be financed by internal resources in the ordinary and usual course of business of the Group.

**Terms relating to
subleasing to
connected persons**

: As Poly Developments and Holdings and its associates have reserved certain properties in the Subject Property and will rent properties in the Subject Property for their own use, Poly Business Commercial Property will become the lessor of such reserved and newly rented properties upon entering into the 2022 Property Leasing Agreement. The Subleasing Transactions between Poly Business Commercial Property and Poly Developments and Holdings and its associates will constitute connected transactions.

According to the 2022 Property Leasing Agreement, the pricing principles for the Subleasing Transactions between Poly Business Commercial Property and Poly Developments and Holdings and its associates are:

- (i) For the existing leasing contracts, the existing rent shall be kept for the remaining lease term without modification.
- (ii) For the new leasing contracts, the amount of rent shall be in line with the market pricing principle with reference to factors such as the market rents of relevant properties and the market rents of comparable properties, in an amount of no less than the price at which Poly Business Commercial Property leases comparable properties to independent third parties, and shall be carried out on normal commercial terms.

2. ACCOUNTING IMPLICATIONS OF THE 2022 PROPERTY LEASING AGREEMENT

According to HKFRS 16, the rent payable by the Group under the 2022 Property Leasing Agreement contains different components and therefore different accounting treatments shall be applied.

The guaranteed rent portion in the rent payable by the Group under the 2022 Property Leasing Agreement is capital in nature, and will be recognised as right-of-use assets of the Group in an amount of RMB97.48 million as at the date of the commencement of the lease term (i.e. 1 January 2022).

The shared rent portion in the rent payable by the Group under the 2022 Property Leasing Agreement is revenue in nature and will be recognised as expenses of the Group over the lease term of the 2022 Property Leasing Agreement.

The subleasing income derived from subleasing to connected persons by the Group is revenue in nature and will be recognised as income of the Group over the lease term of the 2022 Property Leasing Agreement.

3. HISTORICAL FIGURES AND ANNUAL CAPS OF INCOME FROM SUBLEASING TO CONNECTED PERSONS

The historical amounts of the rent received by Poly Business Commercial Property under the 2020 Property Leasing Agreement in respect of the subleasing of the Subject Property to connected persons are as follows:

	From 16 October 2020 to 31 December 2020 (audited)	From 1 January 2021 to 31 December 2021 (unaudited)
Historical amounts ^{Note}	<u>RMB2.19 million</u>	<u>RMB12.95 million</u>

Note: The leases of the other two properties under the 2020 Property Leasing Agreement have been terminated pursuant to the Poly Developments Property Leasing Agreement and covered separately by the Poly Developments Property Leasing Agreement. Accordingly, the historical amounts do not include any transaction amounts other than those involving the Subject Property.

Pursuant to Chapter 14A of the Listing Rules, the annual caps for the rent to be received by Poly Business Commercial Property under the 2022 Property Leasing Agreement in respect of the Subleasing Transactions of the Subject Property for the three years ending 31 December 2024 are set out as follows:

	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
Annual Caps	<u>RMB17.91 million</u>	<u>RMB18.88 million</u>	<u>RMB20.08 million</u>

The above annual caps were determined after taking into account the following factors: in relation to Poly Developments and Holdings and its associates, (i) historical amounts of the subleasing transactions; (ii) the existing lease arrangements (including actual lease term, level of rent, condition for increment, etc. in the tenure of leasing contracts); (iii) the extent of increment in the market rent upon expiry of leasing contracts; and (iv) the estimated additional leasing demand with reference to the market condition.

4. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2022 PROPERTY LEASING AGREEMENT

Poly Business Commercial Property is a subsidiary of the Group engaging in the provision of professional services and focusing on realising a professional management model of “property management” + “asset operation” + “corporate services” for commercial properties. Since 2020, Poly Business Commercial Property has adopted a comprehensive entrusted business model for the contracting management of office buildings, such model has effectively expanded the Group’s asset operation business and rapidly enhanced the Group’s expertise in asset operation.

The entering into of the 2022 Property Leasing Agreement has extended the lease term and optimised the terms of the transaction, through which the Group will, on one hand, attain a larger discount on guaranteed rent, which will effectively reduce the cost of leasing business and enhance the utilisation efficiency of financial resources; on the other hand, the Group will have a more stable potential subleasing demand, which will, to a great extent, ensure the sustainable development of the Group’s asset operation business and asset management brand.

5. OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER

The shared rent portion of the rent payable and the income from the Subleasing Transactions of the Group under the 2022 Property Leasing Agreement constitute continuing connected transactions of the Company under the Listing Rules. As the term of the 2022 Property Lease Agreement is more than three years, pursuant to Rule 14A.52 of the Listing Rules, the Independent Financial Adviser has taken into consideration the following reasons based on its research and analysis and discussion with the management of the Company (the “**Management**”):

- (i) the Group, as a leading comprehensive property management service provider in the PRC with extensive property management scale and state-owned background, is mainly engaged in providing property management services, value-added services to non-property owners and community value-added services;
- (ii) Poly Business Commercial Property, a wholly-owned subsidiary of the Company, is committed to becoming an expert in asset operation for property owners, users and managers for the benefit of their growth in value, providing property owners with a one-stop service model with an organic integration of property management and asset management. The company is involved in a wide range of projects, covering various industry ecologies such as commercial offices, commercial complexes, government office buildings, tourism complexes, shopping centers, serviced apartments, convention and exhibition venues, as well as hospitals, schools, industrial parks and transportation hubs.

Poly Business Commercial Property engages in the provision of professional services and focuses on realising a professional property management model of “property management” + “asset operation” + “corporate services” for commercial properties. Since 2020, Poly Business Commercial Property has adopted a comprehensive entrusted business model for the contracting management of office buildings, such model has effectively expanded the Group’s asset operation business and rapidly enhanced the Group’s expertise in asset operation;

- (iii) Poly Business Commercial Property will adopt certain internal policies and measures to ensure that the transactions, including the leasing of the Subject Property and the Subleasing Transactions, under the 2022 Property Leasing Agreement are fair and reasonable;
- (iv) the duration of 10 years under the 2022 Property Lease Agreement would enable the Group to carry out long term strategic planning and greater flexibility in relation to the management of the subleasing terms, tenant mix and tenant solicitation under its subleasing business model. Furthermore, the potential additional management resources of the Company that may be required to conduct further negotiation among the relevant parties thereto for the renewal of the 2022 Property Leasing Agreement for every other 3 years or less has also been considered; and
- (v) in view of that the Subject Property under the 2022 Property Leasing Agreement shall be for commercial use, the Independent Financial Adviser has conducted market analysis and identified not less than 10 market lease transactions relating to the leasing of commercial properties entered into by member(s) of a listed group on the Stock Exchange and were effective as at the date of this announcement (the “**Market Lease Transactions**”). The Independent Financial Adviser considered the Market Lease Transactions to be an appropriate reference for general market practice, and noted that the term of the relevant agreements in connection with the Market Lease Transactions ranged from a term of 5 years up to 20 years. As such, the proposed term of 10 years under the 2022 Property Leasing Agreement falls within such range. Long term leases of commercial properties are not uncommon in the PRC.

Having considered the above factors, the Independent Financial Adviser is of the view that the duration of the 2022 Property Leasing Agreement exceeds three years is reasonable and in the interests of the Company and the shareholders of the Company and confirms that it is normal business practice for agreements of this type to be of such duration.

6. OPINIONS OF THE BOARD

In view of the above reasons and benefits, the Board is of the view that the 2022 Property Leasing Agreement and the transactions contemplated thereunder are conducted on normal or more favorable commercial terms in the ordinary and usual course of business of the Group, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

None of the Directors has any material interest in the transactions contemplated under the 2022 Property Leasing Agreement. Given that Mr. Huang Hai is the secretary of the board and the officer of the board of Poly Developments and Holdings, Mr. Liu Ping is the chairman and the director of Poly Developments and Holdings and Mr. Hu Zaixin is the director of Poly Developments and Holdings, all of them have abstained from voting on the Board resolution approving the 2022 Property Leasing Agreement.

7. INTERNAL CONTROL MEASURES

The Company will adopt the following internal policies and measures to ensure that the transactions under the 2022 Property Leasing Agreement are conducted in compliance with the 2022 Property Leasing Agreement, which, in specific, include but not limited to:

- (1) the management and the finance department of the Company will closely monitor the entering into of leasing contracts for the Subleasing Transactions under the 2022 Property Leasing Agreement, including monitoring and ensuring that the above businesses fall within the respective applicable annual caps through continuous and timely inquiries;
- (2) the independent non-executive Directors and the auditor of the Company will also conduct annual review of the 2022 Property Leasing Agreement and the relevant annual caps and provide confirmation in the Company's annual report;
- (3) for Subleasing Transactions, the existing rent standards as stipulated in the original leasing contracts to which Poly Developments and Holdings and its associates are a party will be kept for the remaining lease term. Upon the expiry of the existing leasing contracts or upon the addition of new leasing business, Poly Business Commercial Property shall become the party A to re-enter into the leasing contracts. Poly Business Commercial Property shall approve internally the procedures for entering into such contracts and sign the contracts, and shall have independent authority in decision-making and pricing to ensure that such rents shall be no less than the rent charged against independent third parties;
- (4) for the Subleasing Transactions, the independent non-executive Directors will also review the implementation and enforcement of the specific subleasing contracts entered into under the 2022 Property Leasing Agreement to ensure that the specific subleasing contracts are carried out in accordance with the terms, including the pricing principles, as set out in the 2022 Property Leasing Agreement; and
- (5) in the event that it is necessary to adjust the annual caps due to business development needs or other reasons, such arrangements will be made in advance and in strict compliance with the relevant requirements under the Listing Rules.

8. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Poly Developments and Holdings is interested in an aggregate of 72.289% of the total issued share capital of the Company, and is a controlling Shareholder of the Company and a connected person of the Company under the Listing Rules. Accordingly, the 2022 Property Leasing Agreement and the transactions contemplated thereunder will constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

According to HKFRS 16, the Group is required to recognise the guaranteed rent portion under the 2022 Property Leasing Agreement as right-of-use assets, and hence the recognition of right-of-use assets will be considered as a one-off connected transaction under the Listing Rules, and the Company is required to calculate the applicable percentage ratios based on the value of right-of-use assets. The shared rent portion under the 2022 Property Leasing Agreement will be recognised as expenses of the Group over the lease term, which will constitute continuing connected transactions under the Listing Rules and, as a result, the Company is required to calculate the applicable percentage ratios based on the annual cap amount of the shared rent portion.

As the highest applicable percentage ratios in respect of the value of right-of-use assets for the guaranteed rent portion and the relevant highest annual cap for the subleasing income in respect of the subleasing to connected persons by the Group under the 2022 Property Leasing Agreement calculated pursuant to the Listing Rules are more than 0.1% but less than 5%, the Company is only subject to the reporting, announcement and annual review requirements but is exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In addition, as the highest applicable percentage ratio in respect of the relevant highest annual cap for the shared rent portion under the 2022 Property Leasing Agreement calculated pursuant to the Listing Rules is less than 0.1%, the Company is fully exempted from the reporting, announcement, annual review and independent Shareholders' approval requirements for the shared rent portion under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the 2022 Property Leasing Agreement exceeds three years, the Company has appointed the Independent Financial Adviser to elaborate the reasons for the longer duration, and to confirm that it is a normal business practice for agreements of this type to be of such duration. For details, please refer to the section headed "5. *OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER*" in this announcement.

9. INFORMATION OF THE PARTIES

Information of Poly Business Commercial Property

Poly Business Commercial Property is a company with limited liability established in the PRC on 30 March 2017, and is committed to becoming an expert in asset operation for property owners, users and managers for the benefit of their growth in value, providing property owners with a one-stop service model with an organic integration of property management and asset management. The company is involved in a wide range of projects, covering various industry ecologies such as commercial offices, commercial complexes, government office buildings, tourism complexes, shopping centers, serviced apartments, convention and exhibition venues, as well as hospitals, schools, industrial parks and transportation hubs.

Information of the Group

The Company is a joint stock company incorporated in the PRC with limited liability on 26 June 1996. As a leading comprehensive property management service provider in the PRC with extensive property management scale and state-owned background, the Group is mainly engaged in providing property management services, value-added services to non-property owners and community value-added services.

Information of Poly Developments and Holdings

Poly Developments and Holdings, whose shares are listed on the main board of Shanghai Stock Exchange, is a joint stock company established in the PRC with limited liability on 14 September 1992. Poly Developments and Holdings focuses on the business of real estate development and operation, and builds an ecological development platform of real estate, which is driven by the real estate investment and development business as its core, and integrated services and real estate finance business as two supplementary businesses.

10. DEFINITIONS

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

“2020 Property Leasing Agreement”	the office leasing contract (《寫字樓租賃合同》) dated 16 October 2020 entered into between Poly Business Commercial Property and Poly Developments and Holdings, as amended by the Poly Developments Property Leasing Agreement
“2022 Property Leasing Agreement”	the office leasing contract (《寫字樓租賃合同》) dated 31 December 2021 entered into between Poly Business Commercial Property and Poly Developments and Holdings
“Board”	the board of Directors of the Company
“Company”	Poly Property Services Co., Ltd., a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the main board of the Stock Exchange
“HKFRS”	the Hong Kong Financial Reporting Standards published by The Hong Kong Institute of Certified Public Accountants from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong

“Independent Financial Adviser”	Red Sun Capital Limited, a licensed corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser appointed to advise in respect of the duration of the 2022 Property Leasing Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Poly Business Commercial Property”	Guangzhou Poly Business Commercial Property Development Co., Ltd. (廣州保利商業物業發展有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Poly Developments and Holdings”	Poly Developments and Holdings Group Co., Ltd. (保利發展控股集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose shares are listed on the main board of the Shanghai Stock Exchange (Stock Code: 600048). Poly Developments and Holdings is a controlling shareholder of the Company
“Poly Developments Property Leasing Agreement”	the Poly Developments Property Leasing Agreement dated 1 April 2021 entered into between Poly Business Commercial Property and Poly Developments and Holdings, in relation to, among others, the leasing of Poly International Plaza (保利國際廣場) and Guangzhou Poly Center (廣州保利中心) by Poly Developments and Holdings to Poly Business Commercial Property, and the termination of the leases entered into in respect of the aforesaid two properties pursuant to the 2020 Property Leasing Agreement
“PRC”	the People’s Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context otherwise requires, references in this announcement to the “PRC” do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, comprising the Domestic Shares and the H Shares

“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Property”	the property as set out in “ <i>Subject Property</i> ” in the section headed “ <i>1. 2022 PROPERTY LEASING AGREEMENT</i> ” of this announcement
“Subleasing Transactions”	the subleasing transactions in respect of the Subject Property between Poly Business Commercial Property and Poly Developments and Holdings and its associates as conducted under the 2022 Property Leasing Agreement
“%”	per cent

In this announcement, the terms “associate”, “connected person”, “connected transaction”, “continuing connected transaction”, “controlling shareholder” and “subsidiary” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English names of Chinese entities included in this announcement are unofficial translations of their Chinese names and are included for identification purposes only.

By Order of the Board
POLY PROPERTY SERVICES CO., LTD.
Huang Hai
Chairman of the Board and Non-executive Director

Guangzhou, the PRC, 31 December 2021

As at the date of this announcement, the non-executive Directors of the Company are Mr. Huang Hai, Mr. Liu Ping and Mr. Hu Zaixin; the executive Director of the Company is Ms. Wu Lanyu; and the independent non-executive Directors of the Company are Mr. Wang Xiaojun, Ms. Tan Yan and Mr. Wang Peng.