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中海物業

CHINA OVERSEAS PROPERTY

CHINA OVERSEAS PROPERTY HOLDINGS LIMITED

中海物業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2669)

**CONNECTED TRANSACTION
IN RELATION TO THE LEASE AGREEMENT
WITH CSC CHENGDU**

THE LEASE AGREEMENT

On 28 April 2022, COPM Chengdu (an indirect wholly-owned subsidiary of the Company, as lessee) entered into the Lease Agreement with CSC Chengdu (as lessor) in relation to the renewal of the Existing Lease involving the lease of the Premises for a term of nine years.

LISTING RULES IMPLICATIONS

In accordance with HKFRS 16 “Leases”, the rental payments payable by the Group under the Lease Agreement will be recognized as a right-of-use asset and as a result, the entering into of the Lease Agreement and the transactions contemplated thereunder will be regarded as acquisitions of assets by the Group pursuant to the Listing Rules.

CSCEC is the ultimate holding company of the Company. Therefore, CSC Chengdu, being an indirect wholly-owned subsidiary of CSCEC, is a connected person of the Company under the Listing Rules and the entering into of the Lease Agreement and the transactions contemplated thereunder constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the value of the right-of-use asset to be recognised by the Group under the Lease Agreement is more than 0.1% but all are less than 5%, the entering into of the Lease Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but is exempted from the circular, independent financial advice and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

COPM Chengdu (an indirect wholly-owned subsidiary of the Company) had entered into a lease agreement in June 2021 with CSC Chengdu (as lessor) in relation to the Existing Lease of the Premises for a term of one year ending on 31 May 2022. As the Existing Lease will expire soon, on 28 April 2022, COPM Chengdu (as lessee) has entered into the Lease Agreement with CSC Chengdu (as lessor) in relation to the renewal of the Existing Lease involving the lease of the Premises for a term of nine years.

THE LEASE AGREEMENT

A summary of the principal terms of the Lease Agreement is set out below:

- Date: 28 April 2022
- Parties: (i) COPM Chengdu, an indirect wholly-owned subsidiary of the Company (as lessee); and
(ii) CSC Chengdu (as lessor).
- Premises: the Premises consist of levels -2, -1, 1, 2, 3, 8, 9, 10, 11 and 12 of the China State Construction Development Building, with a total lettable area of approximately 14,778.24 sq. m..
- Term: the term of the Lease Agreement is nine years commencing from the delivery date, being the date when the parties have completed the administrative procedures and will be no later than 1 June 2022.
- Usage: Levels -2 and -1 of the Premises will be used as carparks and levels 1, 2, 3, 8, 9, 10, 11 and 12 of the Premises will be used for non-manufacturing industrial purposes.
- Rent: The annual rent payable (exclusive of management service fees and utilities fees but inclusive of tax and charges) under the Lease Agreement are as follows:
- (i) RMB4.36 million for the first and second years;
 - (ii) RMB4.46 million for the third year;
 - (iii) RMB4.56 million for the fourth year;
 - (iv) RMB4.66 million for the fifth year;
 - (v) RMB4.76 million for the sixth year; and
 - (vi) RMB4.86 million for the seventh, eighth and ninth year.

The rent under the Lease Agreement will be paid at the end of each three-month period, with the rent payable for the three-month period being 25% of the corresponding annual rent.

COPM Chengdu will provide property management services for the Premises and related common areas for the tenants of individual units in the Premises, and the relevant property management fees will be directly charged by COPM Chengdu against such tenants on an individual basis.

Sub-let: COPM Chengdu will sub-let the individual units of the Premises to other parties provided that the term is within the lease term of the Lease Agreement. COPM Chengdu has discretion over the terms upon which the relevant unit(s) of the Premises are sub-let.

Termination: The Lease Agreement may be terminated by COPM Chengdu if, among other things, there is a delay in the delivery of the Premises by CSC Chengdu to COPM Chengdu for over 30 days.

The Lease Agreement may be terminated by CSC Chengdu if, among other things, COPM Chengdu defaults in its rental payment for over one month.

The terms of the Lease Agreement (including the rent) were determined after arm's length negotiations between the parties, with reference to (a) the rent and terms for comparable leases of properties, which involves the lease of an entire building for management and sub-lease, in the areas nearby for similar non-manufacturing industrial use; and (b) the historical rent of the Premises of RMB4.36 million paid by COPM Chengdu to CSC Chengdu for a term of one year under the Existing Lease.

ACCOUNTING TREATMENT

In accordance with HKFRS 16 “Leases”, the Group will recognise a right-of-use asset and related lease liability in its consolidated statement of financial position in connection with the rental payments under the Lease Agreement. The estimated value of the right-of-use asset to be recognised by the Group under the Lease Agreement amounts to approximately RMB31.92 million (equivalent to approximately HK\$39.07 million), which is the present value of the rental payments based on a discount rate of 4.90% per annum in accordance with HKFRS 16. It should be noted that the above figure is unaudited and may be subject to adjustment in the future.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENT

Apart from providing property management services to the Premises, the Group had provided one-stop shop asset management services to the lessor and managed the Premises on a trial basis for a year by virtue of the Existing Lease, leveraging on its knowledge and expertise in the local leasing market. During the year, the Group had demonstrated its abilities in professional asset management to upgrade the profile and status of the Premises such that the maximum potential of the Premises as a high grade property can be exploited to generate higher market rental income for the Group than the rent payable by the Group to the lessor. The average occupancy rate of the Premises during the year was approximately 70% and average rent per square meter was higher than nearby commercial buildings similar to the Premises. As a result, the Existing Lease was renewed for a term of nine years under the Lease Agreement in order for the Group to leverage on its experience and familiarity with the Premises to continue the effective asset operation and management of the Premises on a longer term, through leasing the Premises as a whole for the Group’s uniform management and sub-lease of individual units in the Premises, thereby creating benefits from the economics of scale for the Group’s resources and generating synergies from providing extensive services under the collective management of the individual units in the Premises, which will promote the development of the Group’s business and enhance the basis for higher rent and property management fee income for the Group.

Having considered the above factors and the basis of determination of the rent payable under the Lease Agreement, the Board (including the independent non-executive Directors) are of the view that the transactions contemplated under the Lease Agreement are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) that the terms contemplated under the Lease Agreement (including the rent payable) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

The Company is a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Main Board of the Stock Exchange. The Group is one of the leading property management companies in the PRC with operations also covering Hong Kong and Macau and is principally engaged in the provision of property management services, valued added services and car parking spaces trading business.

COPM Chengdu is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company, which is principally engaged in the provision of property management services in the Chengdu Province of the PRC.

The CSCEC Group is a conglomerate principally engaged in building construction, international contracting, real estate development and investment, infrastructure construction and investment and design and prospecting.

CSC Chengdu is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of CSCEC, which is principally engaged in real estate development and operation in the Chengdu Province of the PRC.

LISTING RULES IMPLICATIONS

In accordance with HKFRS 16 “Leases”, the rental payments payable by the Group under the Lease Agreement will be recognized as a right-of-use asset and, as a result, the entering into of the Lease Agreement and the transactions contemplated thereunder will be regarded as acquisitions of assets by the Group pursuant to the Listing Rules.

CSCEC is the ultimate holding company of the Company. Therefore, CSC Chengdu, being an indirect wholly-owned subsidiary of CSCEC, is a connected person of the Company under the Listing Rules and the entering into of the Lease Agreement and the transactions contemplated thereunder constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the value of the right-of-use asset to be recognised by the Group under the Lease Agreement is more than 0.1% but all are less than 5%, the entering into of the Lease Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but is exempted from the circular, independent financial advice and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As none of the Directors had a material interest in the Lease Agreement and the transactions contemplated thereunder, none of the Directors had abstained from voting on the relevant board resolutions of the Company.

DEFINITIONS

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

“Board”	board of Directors;
“China State Construction Development Building”	中建發展大廈, being building no.18 located at 51 Tengfei Boulevard, Qingyang District, Chengdu Province, the PRC* (成都青羊區騰飛大道51號18棟);
“Company”	China Overseas Property Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 2669);
“COPM Chengdu”	成都中海物業管理有限公司 (China Overseas Property Management (Chengdu) Company Limited*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company;
“CSC Chengdu”	成都中建發展實業有限責任公司 (China State Construction Development (Chengdu) Company Limited*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of CSCEC;
“CSCEC”	中國建築集團有限公司 (China State Construction Engineering Corporation*), a state-owned corporation organised and existing under the laws of the PRC, being the ultimate holding company of the Company;
“CSCEC Group”	CSCEC and its subsidiaries (including CSC Chengdu but, for the purpose of this announcement, excluding any listed subsidiary(ies)) from time to time;
“Director(s)”	the director(s) of the Company;
“Existing Lease”	the lease of the Premises pursuant to the agreement entered into between COPM Chengdu (as lessee) and CSC Chengdu (as lessor) in June 2021 for a term of one year ending on 31 May 2022;
“Group”	the Company and its subsidiaries (including COPM Chengdu) from time to time;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

“Lease Agreement”	the property lease agreement dated 28 April 2022 entered into between COPM Chengdu as lessee and CSC Chengdu as lessor in respect of the renewal of the Existing Lease involving the lease of the Premises for nine years;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macao Special Administrative Region of the PRC;
“PRC”	People’s Republic of China, but for the purpose of this announcement excluding Hong Kong, Macau and Taiwan;
“Premises”	has the meaning ascribed to it under the section headed “The Lease Agreement” in this announcement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	the shareholder(s) of the Company from time to time;
“sq. m.”	square metre(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

In this announcement, unless the context requires otherwise, the terms “connected person”, “controlling shareholder(s)”, “connected transaction(s)”, “holding company(ies)”, “percentage ratio(s)” and “subsidiary(ies)” shall have the meanings given to such terms in the Listing Rules.

For the purpose of this announcement and for illustrative purpose only, RMB is converted into HK\$ at the rate of RMB0.81715 to HK\$1. No representation is made that any amounts in RMB has been or could be converted at the above rate or at any other rate.

** The English names of the PRC entities and locations referred to in this announcement are translations from their Chinese names and are for identification purpose only. If there is any inconsistency, the Chinese name shall prevail.*

By Order of the Board
China Overseas Property Holdings Limited
Zhang Guiqing
Chairman and Executive Director

Hong Kong, 28 April 2022

As at the date of this announcement, the Board comprises nine Directors, of which four are Executive Directors, namely Mr. Zhang Guiqing (Chairman), Dr. Yang Ou (Chief Executive Officer), Mr. Pang Jinying (Vice President) and Mr. Kam Yuk Fai (Chief Financial Officer); two are Non-executive Directors, namely Mr. Ma Fujun and Mr. Guo Lei; and three are Independent Non-executive Directors, namely Mr. Yung, Wing Ki Samuel, Mr. So, Gregory Kam Leung and Mr. Lim, Wan Fung Bernard Vincent.