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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

PROPERTY LEASING AGREEMENT

On 16 October 2020, Poly Business Commercial Property, a wholly-owned subsidiary of the Company, as lessee, entered into the Property Leasing Agreement with Poly Developments and Holdings, as landlord, for a lease term from 16 October 2020 to 31 December 2021.

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 also a connected person of the Company under the Listing Rules. Accordingly, the 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 shared rent portion under the 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 subleasing income under the Property Leasing Agreement calculated pursuant to the Listing Rules is 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.

1. PROPERTY LEASING AGREEMENT

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

- Date** : 16 October 2020
- Parties** : (i) Poly Business Commercial Property; and
(ii) Poly Developments and Holdings
- Subject Properties** : (i) Poly International Plaza (保利國際廣場) at No. 688 Yue Jiang Zhong Road, Haizhu District, Guangzhou (廣州市海珠區閱江中路688號)
(ii) Poly Center (保利中心) at No. 5 Linjiang Avenue, Tianhe District, Guangzhou (廣州市天河區臨江大道5號)
(iii) Poly Zhongke Plaza (保利中科廣場) at No. 101, 103, 105 Lanyue Road, Luogang Science City, Huangpu District, Guangzhou (廣州市黃埔區蘿崗科學城攬月路101號、103號、105號)
- Lease term** : From 16 October 2020 to 31 December 2021.
- Subject matter** : Poly Developments and Holdings agreed to lease the Subject Properties it owned to Poly Business Commercial Property for business management on an as-is basis.
- Rental expense** : The rent payable under the Property Leasing Agreement will be paid in the form of “guaranteed rent + shared rent”.
- Poly Business Commercial Property is required to pay the guaranteed rent in full during the lease term as follows:
- From 16 October 2020 to 31 December 2020: approximately RMB36.56 million
- From 1 January 2021 to 31 December 2021: approximately RMB184.50 million

The excess of the actual operating income from the Subject Properties over the amount of guaranteed rent during the lease term will be shared between both parties at ratios of 50% and 50%.

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

Payment arrangement : Poly Business Commercial Property shall pay the rent to Poly Developments and Holdings on a monthly basis by the 25th day of each month, calculated 90% of the guaranteed rent for each calendar year during the lease term.

The actual rent is settled on a calendar year basis. Poly Business Commercial Property shall complete the audit by 25 December of each year, and both parties will settle the actual amount upon confirmation by Poly Developments and Holdings.

Terms relating to subleasing to connected persons : As Poly Developments and Holdings and its associates have reserved certain properties in the Subject Properties and will rent properties in the Subject Properties for their own use, Poly Business Commercial Property will become the lessor of such reserved and newly rented properties upon signing the 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 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. The contracts shall be carried out on normal commercial terms.

The aggregate amount of subleasing income from subleasing to connected persons during the lease term is estimated not to exceed RMB83 million.

2. ACCOUNTING IMPLICATIONS OF PROPERTY LEASING AGREEMENT

According to HKFRS 16, the rent payable by the Group under the 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 Property Leasing Agreement is capital in nature, and will be recognised as right-of-use assets of the Group in an amount of RMB203.43 million as at the date of the commencement of the lease term (i.e. 16 October 2020).

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

The subleasing income 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 Property Leasing Agreement.

3. ANNUAL CAPS AND BASIS OF DETERMINATION

Annual Caps for the Shared Rent

Pursuant to Chapter 14A of the Listing Rules, the Company is required to set an annual cap for the shared rent portion of the rent payable by Poly Business Commercial Property under the Property Leasing Agreement, which is a variable. Details are set out in the following table.

	From 16 October 2020 to 31 December 2020	From 1 January 2021 to 31 December 2021
Annual cap	RMB4 million	RMB20 million

The above annual cap was determined after taking into account: (i) the existing lease arrangements (including actual lease term, level of rent, condition for increment, etc. in the tenure of leasing contracts); (ii) the extent of increment in the market rent upon expiry of leasing contracts; and (iii) the estimated additional leasing demand with reference to the market condition.

Annual Cap for Subleasing Income

Pursuant to Chapter 14A of the Listing Rules, the Company is required to set an annual cap for the rent receivable by Poly Business Commercial Property under the Subleasing Transactions. Details are set out in the following table.

	From 16 October 2020 to 31 December 2020	From 1 January 2021 to 31 December 2021
Annual cap	RMB15 million	RMB68 million

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

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

Poly Business Commercial Property is a subsidiary of the Group engaging in the provision of professional services and focusing on realizing a comprehensive property management model of “property management” + “asset operation” + “corporate services” for commercial properties. After accumulating years of operational experience in the entrusted office operation business of Guangzhou Poly International Plaza (廣州保利國際廣場), Guangzhou Poly Center (廣州保利中心) and Guangzhou Poly Zhongke Plaza (廣州保利中科廣場), the Subject Properties have become increasingly mature, and the asset management team has also gained even stronger asset business canvassing and operation capabilities.

In order to effectively expand the Group’s asset operation business and enhance the Group’s expertise in asset operation, Poly Business Commercial Property will adopt a “guaranteed rent + shared rent” model to develop the business of overall contracting for business management. This model is line with the Group’s positioning in the strategy of “Comprehensive Property”, by which the Group’s ability in the marketisation of asset operation can be strengthened rapidly.

5. OPINIONS OF THE BOARD

In view of the above reasons and benefits, given that the transactions contemplated under the Property Leasing Agreement, including the leasing of the Subject Properties and the Subleasing Transactions, are conducted on normal or more favorable commercial terms in the ordinary and usual course of business of the Company, the Board, including the independent non-executive Directors, is of the view that the terms of the Property Leasing Agreement 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 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 a director and the general manager of Poly Developments and Holdings and Mr. Hu Zaixin is the deputy secretary of the committee of the Communist Party of China of Poly Developments and Holdings, all of them abstained from voting on the Board resolution approving the Property Leasing Agreement.

6. INTERNAL CONTROL MEASURES

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

- (1) the management and the finance department of the Company will also closely monitor (i) the shared rent portion; and (ii) the entering into of subleasing contracts under the Property Leasing Agreement, in order to, among other things, monitor and ensure that the above businesses are falling within the respective applicable annual caps through continuous and timely inquiries;
- (2) the auditor of the Company will also conduct an annual review on the Property Leasing Agreement and the relevant annual caps and provide confirmation in the Company's annual report;
- (3) for Subleasing Transactions, the existing leasing contracts to which Poly Developments and Holdings and its associates are the parties will keep the existing standards for rent for the remaining lease term. Upon the expiry of existing leasing contracts or upon the addition of new leasing business, Poly Business Commercial Property shall become the party A to leasing contracts when they are signed. 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 are no less than the rent charged to independent third parties;

- (4) for the Subleasing Transactions, the independent non-executive directors of the Company will also review the implementation and enforcement of the specific subleasing contracts entered into under the 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 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.

7. 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 also a connected person of the Company under the Listing Rules. Accordingly, the 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 under the Property Leasing Agreement as right-of-use assets, and hence the recognition as 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 Property Leasing Agreement will be recognised as expenses of the Group over the lease term of the Property Leasing Agreement, 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 shared rent portion under the 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 subleasing income under the Property Leasing Agreement calculated pursuant to the Listing Rules is 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.

8. 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 developing into an expert in asset operation for property owners, users and managers for the benefit of their growth in value. Apart from providing property owners with a one-stop service business model with an organic integration of property management and asset management, Poly Business Commercial Property offers a wide range of projects of management services, covering 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 with limited liability established in the PRC on 26 June 1996. The Group is a leading comprehensive property management service provider in the PRC with extensive property management scale and state-owned background, and 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, with integrated services and real estate finance business as two supplementary businesses.

9. DEFINITIONS

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

“Board”	the board of Directors
“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
“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
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“PRC”	the People’s Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires, references in this announcement to the “PRC” do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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
“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 Properties”	the properties as set out in “Subject Properties” in the section headed “1. PROPERTY LEASING AGREEMENT” of this announcement
“Subleasing Transactions”	the subleasing transactions in respect of the Subject Properties between Poly Business Commercial Property and Poly Developments and Holdings and its associates as conducted under the 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, PRC, 16 October 2020

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.