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Powerlong Commercial Management Holdings Limited

寶龍商業管理控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9909)

DISCLOSEABLE TRANSACTION ACQUISITION OF RIGHT-OF-USE ASSET IN RELATION TO A LEASE AGREEMENT

LEASE AGREEMENT

The Board announces that the Company (as lessee) entered into the Lease Agreement with Xiamen Metro Investment (as lessor) in respect of the leasing of the Premises for a term of twenty (20) years commencing on the Delivery Date for the property leasing services business of the Group. The Premises are shopping streets and commercial facilities ancillary to the rapid public transit system under development in the Xiamen region.

IMPLICATIONS UNDER THE LISTING RULES

As the entering into of the Lease Agreement will be recognised as a right-of-use asset in the Group's consolidated financial statements in accordance with HKFRS 16, the entering into of the Lease Agreement and the transactions contemplated thereunder would be regarded as an acquisition of asset by the Company for the purposes of the Listing Rules.

The value of the right-of-use asset to be recognised under the Lease Agreement is expected to be approximately RMB398.5 million (before tax), which is unaudited and may be subject to adjustment in the future. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Lease Agreement is more than 5% but less than 25%, the Lease Agreement constitutes a discloseable transaction for the Company, and is therefore subject to the reporting and announcement requirements but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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PRINCIPAL TERMS OF THE LEASE AGREEMENT

The principal terms of the Lease Agreement are set out below:

Date: 22 July 2021

Parties: (i) The Company; and
(ii) Xiamen Metro Investment

Premises: Four commercial property projects are leased by the Company under the Lease Agreement, namely the Jiangjunci East project, the Jixinghaidi North project, the Wenzao project and the Tangbian project. All of these projects are shopping streets and commercial facilities ancillary to the rapid public transit system under development in the Xiamen region.

Jiangjunci East project is located at the northeast to the intersection of Wenyuan Road and Wanshou Road, Siming District, Xiamen, the PRC. Jixinghaidi North Project is located at No. 166-1 Jixinghaidi, Jimei District, Xiamen, the PRC. Wenzao project is located at the western side of Hubinzhong Road, southern side of Hexiangdong Road and northern side of Hubinnan Road, Siming District, Xiamen, the PRC. Tangbian project is located at Yuanshan Beisanli, Huli District, Xiamen, the PRC.

The Premises include stores, outdoor and rooftop spaces, exterior façade advertisement spaces and certain car parking lots with a total rental-calculated gross floor area (the “GFA”) of 91,308 square meters (“sq.m.”) in aggregate, including as to 6,470 sq.m. for the Jiangjunci East project, 14,705 sq.m. for the Jixinghaidi North project, 41,658 sq.m. for the Wenzao project and 28,475 sq.m. for the Tangbian project.

If the actual GFA delivered is different from the rental-calculated GFA stipulated above, parties to the Lease Agreement shall sign a supplemental agreement to revise the rental payment and guarantee deposit accordingly.

Term: Twenty (20) years commencing on the Delivery Date which is currently anticipated to be 30 September 2021, 30 November 2021, 31 March 2022 and 31 March 2023 in respect of the Jiangjunci East project, the Jixinghaidi North project, the Tangbian project and the Wenzao project, respectively. (The above are estimated dates only and the actual dates may be different)

Purpose: For subleasing as part of the Group’s commercial operational services business.

Rent:

The rent shall consist of a base rent and a turnover rent.

The base rent is an agreed sum per sq.m. per month payable in advance every three months and is subject to an increment of 5% in the 4th, 7th, 10th and 13th rental year and an increment of 6% in the 16th and 19th rental year.

The turnover rent is contingent on the total commercial rental income received by the Group from the subleasing of the Premises and shall be calculated as an agreed percentage of the total commercial rental received by the Group each year from the Premises. The turnover rent shall accrue on an annual basis and shall be payable on or before 30 April in the following calendar year in respect of the turnover rent accrued during the preceding calendar year.

The aggregated rental payment under the Lease Agreement over the entire lease term of 20 years for all the Premises is currently estimated to be approximately RMB760 million (inclusive of VAT but excluding turnover rent). The rent is expected to be funded by the internal resources of the Group.

Management and other miscellaneous fees:

The Company shall be responsible for certain management fees, repair and maintenance fees and other miscellaneous expenses in relation to the Premises payable to the relevant property management companies designated by Xiamen Metro Investment and subject to the terms and conditions of the relevant property management agreements to be entered into between the Company and such property management companies.

The Company shall also be responsible for management and maintenance of the public passageway, greenery and other ancillary facilities within the Premises.

Guarantee deposit:

A guarantee deposit of RMB9,313,416 shall be paid by the Company under the Lease Agreement, 50% of which has been paid in cash as at the date of this announcement and the balance will be paid by way of bank guarantee. The guarantee deposit, after deduction for outstanding rent or other fees and expenses, if any, shall be returned to the Company within 30 business days after the Company has returned the Premises upon expiry or termination of the Lease Agreement.

RIGHT-OF-USE ASSET

Pursuant to HKFRS 16, the Group will recognise a right-of-use asset in respect of the Lease Agreement upon commencement of the lease term thereunder, i.e. with effect from the Delivery Date, which is measured at the present value of the total rent payable during the term of the Lease Agreement, discounted using an incremental borrowing rate. The value of such right-of-use asset to be recognised by the Company upon commencement of the term of the Lease Agreement is expected to be approximately RMB398.5 million (before tax). Shareholders should note that the value of the assets is unaudited and may be subject to adjustment in the future.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENT

As part of its commercial operational services business, the Group manages and operates a diversified portfolio of retail commercial properties including shopping malls and shopping streets, which vary in target consumers, property locations and sizes and property types, which includes providing property leasing services with respect of units located within shopping streets and shopping malls. The Group leases shopping street units and shopping malls from property owners, and sublease to tenants, from whom the Group receives rental income. The Group had submitted its bidding application in an open tender for the lease of the Premises on 29 June 2021, and entering into the Lease Agreement subsequently helped the Company meet its business needs and is beneficial for the business development of the Company.

The terms (including the rental and other payment terms for the Premises) of the Lease Agreement were negotiated on arm's length negotiations with reference to the prevailing market conditions and prevailing market rent for comparable premises in the vicinity, as well as business development opportunity and future prospect of the commercial operational services business in the Xiamen region.

The Directors (including the independent non-executive Directors) are of the view that the Lease Agreement was entered into in the ordinary and usual course of business of the Group, is in the interests of the Group and the Shareholders as a whole and the terms of the Lease Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable.

INFORMATION ON THE PARTIES

The Company is an investment holding company and the Group is a leading service provider engaging in commercial operational services and residential property management services in the PRC.

As at the date of this announcement, Xiamen Metro Investment is a company incorporated in the PRC with limited liability and is principally engaged in property development and property management in the PRC. It is wholly-owned by Xiamen Rail Transit Group Co., Ltd.* (廈門軌道交通集團有限公司), which is owned as to approximately 87.74% by the State-owned Assets Supervision and Administration Commission of Xiamen Municipal People's Government* (廈門市人民政府國有資產監督管理委員會), a state-owned enterprise, and as to approximately 12.26% by China Development Fund Co., Ltd.* (國開發基金有限公司), a wholly-owned subsidiary of China Development Bank (國家開發銀行).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Xiamen Metro Investment and its ultimate beneficial owners are Independent Third Parties.

IMPLICATIONS UNDER THE LISTING RULES

As the entering into of the Lease Agreement will be recognised as a right-of-use asset in the Group's consolidated financial statements in accordance with HKFRS 16, the entering into of the Lease Agreement and the transactions contemplated thereunder would be regarded as an acquisition of asset by the Company for the purposes of the Listing Rules.

The value of the right-of-use asset to be recognised under the Lease Agreement is expected to be approximately RMB398.5 million (before tax), which is unaudited and may be subject to adjustment in the future. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Lease Agreement is more than 5% but less than 25%, the Lease Agreement constitutes a discloseable transaction for the Company, and is therefore subject to the reporting and announcement requirements but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

REMEDIAL MEASURES

The Company acknowledges that the notification and announcement in respect of the Lease Agreement has been delayed as lease assets have not yet been delivered, the lease term under the Lease Agreement has not yet commenced and right-of-use asset has not yet been recognised in the consolidated financial statements of the Company as of the date of the Lease Agreement. Hence, the Company did not consider the entering into of the Lease Agreement would constitute a notifiable transaction for the Company as of the date of the Lease Agreement and omitted to comply with the Listing Rules upon entering into the Lease Agreement.

Going forward, to ensure a timely disclosure in compliance with the Listing Rules, the Company has taken the following remedial measures:

- (i) the Company has issued guidance letters to employees of its business department reminding and explaining to them the relevant requirements under the Listing Rules and the reporting procedures for notifiable transactions under the Listing Rules, and the importance of identifying such transactions prior to execution of any lease agreements;
- (ii) the legal department of the Company shall continue to oversee and monitor the Company's on-going compliance with the Listing Rules; and
- (iii) the Group will arrange training sessions on compliance requirements and computation of ratio tests for notifiable transactions so as to improve the standard of corporate governance and strengthen internal control procedures of the Company.

The Directors are of the view that the above measures could effectively prevent the occurrence of similar incidents in the future.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Powerlong Commercial Management Holdings Limited (寶龍商業管理控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning given to it under the Listing Rules
“Delivery Date”	the delivery date of the Premises
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS 16”	Hong Kong Financial Reporting Standard 16 “Leases” which includes standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) who is/are independent of, and not connected with, the Company and its connected persons in accordance with the Listing Rules
“Lease Agreement”	the lease agreement dated 22 July 2021 entered into between the Company and Xiamen Metro Investment relating to the leasing of the Premises
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Premises”	the four commercial property projects to be leased by the Group pursuant to the Lease Agreement, as described in “Principal terms of the Lease Agreement – Premises” of this announcement

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares in the issued capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	PRC value-added tax
“Xiamen Metro Investment”	Xiamen Metro Upper Cover Investment Development Company Limited* (廈門地鐵上蓋投資發展有限公司), a limited liability company incorporated in the PRC and an independent third party of the Company
“%”	per cent.

By Order of the Board
Powerlong Commercial Management Holdings Limited
Hoi Wa Fong
Chairman

Hong Kong, 23 August 2021

As at the date of this announcement, the executive Directors are Mr. Hoi Wa Fong, Mr. Chen Deli and Mr. Zhang Yunfeng; the non-executive Directors are Ms. Hoi Wa Fan and Ms. Hoi Wa Lam; and the independent non-executive Directors are Ms. Ng Yi Kum, Estella, Mr. Chan Wai Yan, Ronald and Dr. Lu Xiongwen.

* For identification purpose only.