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Poly Property Group Co., Limited

保利置業集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00119)

SUPPLEMENTAL ANNOUNCEMENT ON DISCLOSEABLE TRANSACTION ACQUISITION OF 33.5% EQUITY INTEREST IN POLY GUIZHOU

Reference is made to the announcement of Poly Property Group Co., Limited (the “**Company**”) dated 30 September 2021 (the “**Announcement**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the Announcement.

The Board would like to provide the shareholders and potential investors of the Company with the following supplemental information relating to the Debt Restructuring.

BACKGROUND OF THE DEBT RESTRUCTURING AND THE EQUITY TRANSFER

Prior to the entry of the Equity Transfer Agreement, the Purchaser, Guiyang Jintai and Guiyang Zhonglei were equity holders holding 66.5%, 27.917% and 5.583% of the equity interest in Poly Guizhou, respectively. Each shareholder has provided shareholder loans to Poly Guizhou throughout the years. In 2017, Guiyang Jintai and Guiyang Zhonglei entered into a debt transfer agreement, pursuant to which Guiyang Jintai and Guiyang Zhonglei assigned their respective shareholder loans to 貴州庸和正貿易有限責任公司 (Guizhou Yonghe Zheng Trade Co., Ltd.*) (“**Guizhou Yonghe**”). A dispute arose between the shareholders and Guizhou Yonghe subsequently applied to the Guiyang’s Intermediate People’s Court to demand repayment of the assigned shareholder loans.

The Purchaser applied to the People’s Court of Wudang District for a compulsory liquidation of Poly Guizhou in January 2020. The People’s Court of Wudang District subsequently approved the application and appointed an administrator (the “**Administrator**”) in this regard.

Between May 2021 and August 2021, the Purchaser, Guiyang Jintai, Guiyang Zhonglei and Guizhou Yonghe had discussions on settlement and restructuring of the debts of Poly Guizhou. On 23 August 2021, the parties reached an agreement on the Debt Restructuring.

Save for the transactions in connection with Poly Guizhou, each of Guiyang Jintai, Guiyang Zhonglei and Guizhou Yonghe and their respective ultimate beneficial owners have no past or present relationship with the Company or its connected persons.

DETAILS OF THE DEBT RESTRUCTURING AND THE EQUITY TRANSFER

The Debt Restructuring provides that the following shall be paid by Poly Guizhou:

- (1) estimated fees and expenses of approximately RMB22,533,000, which shall be settled in cash;
- (2) preferential creditors' claims of approximately RMB4,948,000, which shall be settled in cash; and
- (3) ordinary creditors' claims of approximately RMB2,029,872,000, which shall be settled at 82.5% of the original amounts. Claims in the amount of RMB10 million or less shall be settled in cash. Claims in the amount exceeding RMB10 million shall be settled partially in cash and partially in kind.

The Purchaser

The Purchaser is an ordinary creditor of Poly Guizhou and therefore falls under (3) above. The Purchaser's claim of approximately RMB1,919,127,000, which shall be settled in the amount of approximately RMB1,583,280,000 pursuant to the Debt Restructuring, will be settled partially in cash and partially in kind (including the Equity Transfer and repayment of loans from Guiyang Poly Real Estate Development Ltd in the amount of approximately RMB482 million).

Poly Guizhou has three wholly-owned subsidiaries (namely, Guiyang Poly Real Estate Development Ltd, Poly Guizhou Hot Spring Operations Management Ltd and Poly Guizhou Hotel Management Ltd) and holds 49% equity interest in Poly Guizhou Property Management Ltd (the remaining 51% is held by the Company).

Accordingly, in connection with the Equity Transfer, the Purchaser acquired:

- (a) 100% equity interest in Guiyang Poly Real Estate Development Ltd, a project company for Guiyang Poly International Plaza (appraised value of approximately RMB546 million as at 30 June 2020). The commercial area of Guiyang Poly International Plaza comprises Level -1 to Level 4, which represents a gross floor area of 52,391.74 square metres. The whole area is currently on a lease for a term of 20 years commencing on 1 July 2014;

- (b) 100% equity interest in Poly Guizhou Hot Spring Operations Management Ltd, a project company for Poly Hot Springs (appraised value of approximately RMB139 million as at 30 June 2020). Poly Hot Springs has a total area of 25,133 square metres and a gross floor area of 10,210 square metres, comprising 31 hotel rooms, one restaurant, 36 spa pools of various sizes and a car park;
- (c) 100% equity interest in Poly Guizhou Hotel Management Ltd, a project company for Guiyang Poly International Hotel (appraised value of approximately RMB277 million as at 30 June 2020). The hotel has a total area of 13,346 square metres and a gross floor area of 38,635 square metres, which comprising 209 hotel rooms, four restaurants of different styles, seven conference rooms of various sizes and a car park; and
- (d) 49% equity interest in Poly Guizhou Property Management Ltd, a property management company which provides property management services for properties in Guizhou Province, including the properties held by Poly Guizhou (appraised value of approximately RMB2.72 million as at 30 June 2020), the remaining 51% equity interest is held by the Company.

The cost method and asset-based method were used in arriving at the appraised values of Guiyang Poly International Plaza, Poly Hot Springs, Guiyang Poly International Hotel and properties held by Poly Guizhou.

Guizhou Yonghe

Guizhou Yonghe is an ordinary creditor of Poly Guizhou and therefore falls under (3) above. Guizhou Yonghe's claim of approximately RMB79,470,000, which shall be settled in the amount approximately of RMB65,500,000, will be settled partially in cash and partially in kind, including a supermarket and a number of shops of Poly Hot Springs New Town (total appraised value of approximately RMB23,330,000 as at 30 June 2020). The cost method and asset-based method were used in arriving at the appraised value of the properties held by Poly Guizhou.

Other creditors

Other creditors of Poly Guizhou include the preferential creditors and the remaining ordinary creditors, and their claims amounted to approximately RMB4,948,000 and approximately RMB26,327,000, respectively. The ordinary creditors' claims in the amount of approximately RMB21,720,000 shall be settled in cash.

FURTHER FINANCIAL INFORMATION ON POLY GUIZHOU

After the Debt Restructuring, Poly Guizhou's total assets will be approximately RMB 1.56 billion, including an increase of approximately RMB197 million in book value for the inventory, real estate, and fixed assets based on valuation. Pursuant to the Debt Restructuring, ordinary creditors' claim will be settled at 82.5% of the original amounts (the amount of waived claims is approximately RMB376 million). After the Debt Restructuring and before settlement of the amount due to the Purchaser of approximately RMB1.583 billion, the major liabilities of Poly Guizhou are approximately RMB1.583 billion due to the Purchaser pursuant to the Debt Restructuring and approximately RMB8 million, which consist of accruals and sums due to other sundry creditors. As a result, after the Debt Restructuring, Poly Guizhou will have net liabilities of approximately RMB30 million primarily arising from operating losses.

The revenue and cash flow generated by Poly Guizhou for the two financial years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021 are as follows:

	Year ended 31 December		Six months ended
	2019	2020	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2021
			<i>RMB'000</i>
Revenue	95,890	85,740	38,710
Net cash flow	16,910	20,090	19,930

REASONS FOR AND BENEFITS OF THE DEBT RESTRUCTURING AND THE EQUITY TRANSFER

The Company considers that the Debt Restructuring (including the Equity Transfer) is a more favourable outcome to the Company than a compulsory liquidation for the following reasons: (i) a piecemeal sale of the assets of Poly Guizhou by the Administrator is not favourable to Poly Guizhou as the bid prices for the assets will likely be significantly discounted; (ii) its outstanding shareholder loan has been sufficiently provided for and it is unlikely to recover more in a piecemeal sale of the assets of Poly Guizhou; (iii) the financial position of Poly Guizhou and the assets it will hold after the Debt Restructuring; (iv) the assets/projects which will be held by Poly Guizhou are in line with the Company's overall strategy for property development and investment; and (v) reputational considerations. Notwithstanding its net loss and net liability position, Poly Guizhou has been generating positive net cash flow for the two years ended 31 December 2020 and the six months ended 30 June 2021. The Company has already made significant investment over a long period of time in Poly Guizhou and the Company is cautiously optimistic that Poly Guizhou will turn around in the medium future.

Taking into account the above, the Board considers that the terms of the Debt Restructuring (including the Equity Transfer) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

By Order of the Board
Poly Property Group Co., Limited
Wan Yuqing
Chairman

Hong Kong, 16 November 2021

As at the date of this announcement, the executive directors of the Company are Mr. Wan Yuqing, Mr. Xue Ming, Mr. Wang Jian and Mr. Ye Liwen, the non-executive director of the Company is Mr. Guo Jianquan and the independent non-executive directors of the Company are Mr. Ip Chun Chung, Robert, Mr. Fung Chi Kin, Miss Leung Sau Fan, Sylvia and Mr. Wong Ka Lun.

** For identification purposes only*