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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)

**CONTINUING CONNECTED TRANSACTIONS
OFFICE LEASE FRAMEWORK AGREEMENT**

AND

**THEATRE AND CINEMA BOX OFFICE INCOME SHARING
FRAMEWORK AGREEMENT**

AND

THEATRE AND CINEMA LEASE FRAMEWORK AGREEMENT

Reference is made to the announcement issued by the Company dated 20 September 2021 regarding the 2021 Framework Agreements and the continuing connected transactions contemplated thereunder.

The Board announces that on 21 December 2023 (after trading hours), the Company and China Poly entered into (i) the Office Lease Framework Agreement, (ii) the Theatre and Cinema Box Office Income Sharing Framework Agreement and (iii) the Theatre and Cinema Lease Framework Agreement, each with a term commencing from 1 January 2024 and ending on 31 December 2026.

As at the date of this announcement, China Poly and its associates hold approximately 48.09% of the total issued share capital of the Company. China Poly is the controlling Shareholder, and China Poly and its associates (other than the Group) are therefore connected persons of the Company. Accordingly, the transactions contemplated under the 2023 Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the annual caps contemplated under each of the 2023 Framework Agreements exceed 0.1% but all of which are less than 5%, the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

Reference is made to the announcement issued by the Company dated 20 September 2021 regarding the 2021 Framework Agreements and the continuing connected transactions contemplated thereunder.

The Board announces that on 21 December 2023 (after trading hours), the Company and China Poly entered into (i) the Office Lease Framework Agreement, (ii) the Theatre and Cinema Box Office Income Sharing Framework Agreement and (iii) the Theatre and Cinema Lease Framework Agreement, each with a term commencing from 1 January 2024 and ending on 31 December 2026.

1. OFFICE LEASE FRAMEWORK AGREEMENT

(1) Background

Pursuant to the existing office lease framework agreement and the underlying office lease agreements, the Group is currently leasing certain properties to China Poly Group as office premises. As the Group will continue to lease properties to China Poly Group as office premises, the Company and China Poly entered into the Office Lease Framework Agreement to better regulate the leasing of office premises.

(2) Office Lease Framework Agreement

Date

21 December 2023

Parties

- (i) the Company (for itself and on behalf of its subsidiaries, as lessor); and
- (ii) China Poly (for itself and on behalf of its subsidiaries, as lessee)

Principal terms

The principal terms of the Office Lease Framework Agreement are as follows:

- the Office Lease Framework Agreement is valid from 1 January 2024 and ending on 31 December 2026;
- the leased properties shall be used for the purpose of office premises and ancillary services;
- the Group and China Poly Group will enter into separate lease agreements which will set out the specific terms and conditions according to the principles provided in the Office Lease Framework Agreement;

- the term of each separate underlying lease agreements entered into under the Office Lease Framework Agreement shall be for a maximum of three years and shall not exceed the term of the Office Lease Framework Agreement. China Poly Group may request to renew the lease by issuing a written notice to the Group at least one month before expiry of the lease. The Company shall, subject to compliance with the Listing Rules, upon receipt of the said notice, consent to the renewal of the lease with China Poly Group before its expiration.

Pricing policies

The rent payable by China Poly Group to the Group pursuant to the Office Lease Framework Agreement shall be determined between the parties at arm's length commercial negotiations according to the principles of fairness and reasonableness with reference to the size, nature and location of the properties and the rent of the properties at similar locations leased by the Group to Independent Third Parties during the same period. The relevant transactions will be conducted on normal commercial terms, and the rents and property management fees will not be lower than those offered to Independent Third Parties and determined with reference to prevailing market prices. Energy charge and other facilities fees will be charged on a disbursement basis.

(3) Historical amounts

The actual rents for the years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023 are set out below:

	For the year ended 31 December			For the nine months ended
	2020	2021	2022	30 September 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rents	6,628	6,922	6,673	8,189

(4) Proposed annual caps and basis of determination

The maximum aggregate annual amount for the years ending 31 December 2024, 2025 and 2026 shall not exceed the caps set out below:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Estimated rents	15,000	15,000	15,000

The Directors have taken into account the following factors in determining the above annual caps: (i) the rents under the existing office lease agreements; (ii) the steady and continuous increase in rents of properties in the vicinity of the relevant properties and the overall future development of the property market in the PRC; and (iii) the future increase in China Poly Group's demand for office space.

(5) Reasons for and benefits of the transactions under the Office Lease Framework Agreement

The Directors are of the view that since one of the principal businesses of the Group is property investment and management, it is the Group's normal commercial strategy to lease out its owned properties. In addition, the Directors consider that it is beneficial for and of administrative convenience to the Group to continue to lease the properties to China Poly by saving any unnecessary administration costs of securing a new lessee.

Since the Office Lease Framework Agreement was entered into in the ordinary and usual course of business of the Group, and the terms (including the rents) were and shall be negotiated on arm's length basis, the Board considers that it is in the commercial interest of the Group to enter into the Office Lease Framework Agreement.

2. THEATRE AND CINEMA BOX OFFICE INCOME SHARING FRAMEWORK AGREEMENT

(1) Background

Pursuant to the existing theatre and cinema box office income sharing framework agreement and the underlying agreements for sharing theatre and cinema box office income sharing arrangement, China Poly Group agreed to split the net theatre and cinema box office income (i.e., box office income net of special fund for national film development and tax) generated from movie screening based on the pre-agreed sharing percentage with the Group, in return for the use of certain theatre and cinema premises owned by the Group located in Shenzhen. As the Group will continue the arrangement of receiving a portion of the theatre and cinema box office income generated by China Poly Group in return for China Poly Group's use of theatre and cinema premises owned by the Group, the Company and China Poly entered into the Theatre and Cinema Box Office Income Sharing Framework Agreement to better regulate the box office income sharing arrangement.

(2) Theatre and Cinema Box Office Income Sharing Framework Agreement

Date

21 December 2023

Parties

- (i) the Company (for itself and on behalf of its subsidiaries); and
- (ii) China Poly (for itself and on behalf of its subsidiaries)

Principal terms

The principal terms of the Theatre and Cinema Box Office Income Sharing Framework Agreement are as follows:

- the Theatre and Cinema Box Office Income Sharing Framework Agreement is valid from 1 January 2024 and ending on 31 December 2026;
- the Group and China Poly Group will enter into separate agreements which will set out the specific terms and conditions according to the principles provided in the Theatre and Cinema Box Office Income Sharing Framework Agreement;
- the Group will provide theatre and cinema premises to China Poly Group for the purposes of China Poly Group operating its theatres and cinemas and providing ancillary services;
- the Group and China Poly Group will split the net theatre and cinema box office income (i.e., box office income net of taxes including value-added tax and special fund for national film development) generated from performances and movie screenings based on an agreed ratio, and China Poly Group shall pay the Group theatre and cinema management fee, energy charge and other facilities fees;
- the term of each separate underlying agreement entered into under the Theatre and Cinema Box Office Income Sharing Framework Agreement shall be for a maximum of three years and shall not exceed the term of the Theatre and Cinema Box Office Income Sharing Framework Agreement. China Poly Group may request to extend the term of the Theatre and Cinema Box Office Income Sharing Framework Agreement by issuing a written notice to the Group at least one month before expiry of the Theatre and Cinema Box Office Income Sharing Framework Agreement. The Group shall, subject to compliance with the Listing Rules, upon receipt of the said notice, consent to extending the Theatre and Cinema Box Office Income Sharing Framework Agreement with China Poly Group before its expiration.

Pricing policies

After the Group and China Poly Group's arm's length commercial negotiations according to the principles of fairness and reasonableness, the box office income sharing percentage is determined with reference to the size, nature and location of the theatre and cinema premises and the projection of the box office income. The relevant transactions will be conducted on normal commercial terms. Having considered comparable transactions in the industry, the Group and China Poly Group have determined that the income sharing percentage charged by the Group will be no less than 10%. The theatre and cinema management fee charged will not be lower than those offered to Independent Third Parties and determined with reference to prevailing market prices. Energy charge and other facilities fees will be charged on a disbursement basis.

(3) Historical amounts

The actual box office income for each of the years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023 is set out below:

	For the year ended 31 December			For the nine months ended
	2020	2021	2022	30 September 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Split income received by the Group	1,683	3,812	1,796	2,529

(4) Proposed annual caps and basis of determination

The maximum aggregate annual amount for the years ending 31 December 2024, 2025 and 2026 shall not exceed the caps set out below:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Estimated split income to be received by the Group	9,000	9,000	9,000

The Directors have taken into account the following factors in determining the above annual caps: (i) the historical figures and the growing trend of income sharing between the Group and China Poly Group from 2020 to 2023, which was unfortunately disrupted by COVID-19 in 2020; (ii) amount received under the existing agreement for theatre and cinema box office income sharing arrangement; and (iii) the projected increase in net cinema box office income of the Group based on the increasing trend of movie tickets price thanks to the rapid development of the film industry in China.

(5) Reasons for and benefits of the transactions under the Theatre and Cinema Box Office Income Sharing Framework Agreement

The Directors are of the view that since one of the principal businesses of the Group is property investment and management, it is the Group's normal commercial strategy to lease out its owned properties. In addition, the Directors consider that theatres and cinemas have specific uses and are built for purpose that are materially different from that of offices. If the Group wishes to maximize the return from this kind of properties of specific uses, the Group will have to build up a management team specializing in running theatres and cinemas. In comparison, as one of the principal businesses of China Poly Group is culture and arts business, it has an existing management team specializing in operating numerous theatres and cinemas in the PRC. The Directors consider that due to the expertise of China Poly Group in operating theatres and cinemas and the prime location of the Group's relevant theatre and cinema premises in a first-tier city in the PRC, by entering into a theatre and cinema box office income sharing

arrangement with China Poly Group, the Group will be able to capture the potential upside of financial return from adequately incentivized professional operators running such assets. At the same time, the Group may obviate the need to incur disproportionate costs of building a management team running such business.

Since the Theatre and Cinema Box Office Income Sharing Framework Agreement was entered into in the ordinary and usual course of business of the Group, and the terms (including the income sharing percentage) were and shall be negotiated on arm's length basis, the Board considers that it is in the commercial interest of the Group to enter into the Theatre and Cinema Box Office Income Sharing Framework Agreement.

3. THEATRE AND CINEMA LEASE FRAMEWORK AGREEMENT

(1) Background

Pursuant to the existing theatre and cinema lease framework agreement and the underlying theatre and cinema lease agreements, the Group is currently leasing certain properties to China Poly Group as premises for China Poly Group's theatre and cinema operations. As the Group will continue to lease properties to China Poly Group for such purposes, the Company and China Poly entered into the Theatre and Cinema Lease Framework Agreement to better regulate the leasing of theatre and cinema premises.

(2) Theatre and Cinema Lease Framework Agreement

Date

21 December 2023

Parties

- (i) the Company (for itself and on behalf of its subsidiaries, as lessor); and
- (ii) China Poly (for itself and on behalf of its subsidiaries, as lessee)

Principal terms

The principal terms of the Theatre and Cinema Lease Framework Agreement are as follows:

- the Theatre and Cinema Lease Framework Agreement is valid from 1 January 2024 and ending on 31 December 2026;
- the leased properties shall be used for the purposes of theatre and cinema operations and ancillary services;

- the Group and China Poly Group will enter into separate lease agreements which will set out the specific terms and conditions according to the principles provided in the Theatre and Cinema Lease Framework Agreement;
- the term of each separate underlying lease agreement entered into under the Theatre and Cinema Lease Framework Agreement shall be for a maximum of three years and shall not exceed the term of the Theatre and Cinema Lease Framework Agreement. China Poly Group may request to renew the lease by issuing a written notice to the Group at least one month before expiry of the lease. The Group shall, subject to compliance with the Listing Rules, upon receipt of the said notice, consent to renewing the lease with China Poly Group before its expiration.

Pricing policies

The rent payable by China Poly Group to the Group pursuant to the Theatre and Cinema Lease Framework Agreement shall be determined between the parties at arm's length commercial negotiations according to the principles of fairness and reasonableness with reference to the size, nature and location of the theatre and cinema premises and the rent of the properties at similar locations leased by the Group to Independent Third Parties during the same period. The relevant transactions will be conducted on normal commercial terms, and the theatre and cinema management fee charged will not be lower than those offered to Independent Third Parties and determined with reference to prevailing market price. Energy charge and other facilities fees will be charged on a disbursement basis.

(3) Historical amounts

The actual rents for the years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023 are set out below:

	For the year ended 31 December			For the nine months ended
	2020	2021	2022	30 September 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rents	6,289	6,289	6,289	5,505

(4) Proposed annual caps and basis of determination

The maximum aggregate annual amount for the years ending 31 December 2024, 2025 and 2026 shall not exceed the caps set out below:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Estimated rents	10,000	10,000	10,000

The Directors have taken into account the following factors in determining the above annual caps: (i) the rents under the existing theatre and cinema lease agreements; (ii) the steady and continuous increase in rents of properties in the vicinity of the relevant properties and the overall future development of the property market in the PRC; and (iii) China Poly Group's plan to expand its cinema and theatre management business during the period from 2024 to 2026 in the PRC.

(5) Reasons for and benefits of the transactions under the Theatre and Cinema Lease Framework Agreement

The Directors are of the view that since one of the principal businesses of the Group is property investment and management, it is the Group's normal commercial strategy to lease out its owned properties. In addition, the Directors consider that theatres and cinemas have specific usages and are built for that purpose which are materially different from that of offices. If the Group wishes to maximize the return of from kind of properties of specific uses, the Group will have to build up a management team specializing in running theatres and cinemas. In comparison, as one of the principal businesses of China Poly Group is culture and arts business, it has an existing management team specializing in operating numerous theatres and cinemas in the PRC. The Directors consider that given the specifications and the age of the relevant theatre and cinemas or their locations being mainly second- and third-tier cities in the PRC, by entering into a leasing arrangement, the Group is able to receive a fixed rent for stable return from the relevant assets as downside protection and to obviate the need to incur disproportionate costs of building a management team running such business.

Since the Theatre and Cinema Lease Framework Agreement was entered into in the ordinary and usual course of business of the Group, and the terms (including the rents) were and shall be negotiated on arm's length basis, the Board considers that it is in the commercial interest of the Group to enter into the Theatre and Cinema Lease Framework Agreement.

OPINIONS OF THE BOARD

The Directors (including the independent non-executive Directors) are of the opinion that the 2023 Framework Agreements are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group and the terms of the 2023 Framework Agreements are fair and reasonable and in the interest of the Company and the Shareholders as a whole. None of the Directors have a material interest in the transactions contemplated under the 2023 Framework Agreements and, accordingly, none of them have abstained from voting on the board resolutions approving the 2023 Framework Agreements and the transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

In order to ensure that the continuing connected transactions contemplated under the 2023 Framework Agreements are conducted on normal commercial terms or on terms no less favorable than when renting to Independent Third Parties and in accordance with the terms of the 2023 Framework Agreements, the Company has adopted the following internal control procedures:

- (i) before entering into each lease, at least two rental comparable properties rented by Independent Third Parties of similar size within the same building or, if not available, properties of similar sizes in the vicinity of the property to be leased will be reviewed;
- (ii) the operation management centre will keep proper documentation of each lease and regularly review rental comparable properties in the same building or in the vicinity of the leased properties;
- (iii) the Company's management and finance department will collect and monitor data of the continuing connected transactions contemplated under 2023 Framework Agreements on a regular basis to ensure annual caps are not exceeded;
- (iv) the external auditor of the Company and the independent non-executive Directors will conduct an annual review and/or confirmation on the continuing connected transactions of the Company (including those under 2023 Framework Agreements) conducted during the preceding financial year pursuant to the requirements of the Listing Rules;
- (v) in the event where the annual caps under the 2023 Framework Agreements requires adjustment due to business development needs or other reasons, arrangements shall be subject to strict compliance with the applicable requirements under the Listing Rules and to be made in advance.

LISTING RULES IMPLICATIONS

As at the date of this announcement, China Poly and its associates hold approximately 48.09% of the total issued share capital of the Company. China Poly is the controlling Shareholder, and China Poly and its associates (other than the Group) are therefore connected persons of the Company. Accordingly, the transactions contemplated under the 2023 Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the annual caps contemplated under each of the 2023 Framework Agreements exceed 0.1% but all of which are less than 5%, the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

INFORMATION ON THE PARTIES

The Group

The Company is principally engaged in the investment holding while the subsidiaries of the Company are principally engaged in property development, property investment and management, hotel operations and its related services, manufacturing and sales of digital discs and others.

China Poly

China Poly is the controlling Shareholder and the ultimate beneficial owner of the Company. China Poly is a state-owned enterprise managed by the State-owned Assets Supervision and

Administration Commission of the State Council of the PRC. Its businesses span multiple sectors, namely international trade, real estate development, light industry research and development and engineering services, arts and crafts raw materials and products management services, culture and arts business, civil explosives materials and services, information and communication technology, and finance services.

DEFINITIONS

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

“2021 Framework Agreements”	the office lease framework agreement, the theatre and cinema box office income sharing framework agreement and the theatre and cinema lease framework agreement entered into between the Company and China Poly on 20 September 2021
“2023 Framework Agreements”	the Office Lease Framework Agreement, the Theatre and Cinema Box Office Income Sharing Framework Agreement and the Theatre and Cinema Lease Framework Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“China Poly”	中國保利集團有限公司 (China Poly Group Corporation Limited*), a state-owned enterprise established in the PRC, a controlling Shareholder, and together with its associates, hold approximately 48.09% of the total issued share capital of the Company
“China Poly Group”	China Poly and its subsidiaries (excluding the Company and subsidiaries of the Company)
“Company”	Poly Property Group Co., Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with the Company or its connected persons

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Office Lease Framework Agreement”	the office lease framework agreement entered into between the Company and China Poly on 21 December 2023
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Theatre and Cinema Box Office Income Sharing Framework Agreement”	the theatre and cinema box office income sharing framework agreement entered into between the Company and China Poly on 21 December 2023
“Theatre and Cinema Lease Framework Agreement”	the theatre and cinema lease framework agreement entered into between the Company and China Poly on 21 December 2023
“%”	per cent

** for identification purpose only*

By order of the Board
Poly Property Group Co., Limited
WAN Yuqing
Chairman

Hong Kong, 21 December 2023

As at the date of this announcement, the executive directors of the Company are Mr. Wan Yuqing and Mr. Ye Liwen, the non-executive director of the Company is Mr. Chen Yuwen, 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.