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嘉里建設有限公司*

KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

website: www.kerryprops.com

(Stock Code: 683)

**CONTINUING CONNECTED TRANSACTIONS:
REVISION OF ANNUAL CAPS FOR
EXISTING FRAMEWORK AGREEMENT
AND RENEWAL OF FRAMEWORK AGREEMENT**

Reference is made to the announcement of the Company dated 9 December 2016 in relation to the continuing connected transactions under the Existing Framework Agreement entered into between the Company and KLN. Due to the recent acquisition of warehouses by the Group of which some units are leased to the KLN Group, the aggregate annual rental income receivable by the Group for the lease of the Leased Premises and the aggregate annual service fees payable by the Group for the KLN Services for the year ending 31 December 2019 are expected to be higher than the Existing Annual Caps under the Existing Framework Agreement. On 29 August 2019, the Company entered into the Supplemental Agreement with KLN to revise the Existing Annual Caps. Save for the Revised Annual Caps, all other terms and conditions under the Existing Framework Agreement remain the same.

As the Existing Framework Agreement will expire on 31 December 2019, the Company has entered into the 2019 Framework Agreement with KLN on substantially the same terms and conditions as the Existing Framework Agreement on 29 August 2019 in relation to the renewal of the lease of the Leased Premises by the Group to the KLN Group and the provision of the KLN Services by KLN Group to the Group.

KLN is a subsidiary of the controlling shareholder of the Company and is therefore a connected person of the Company, and the Transactions under the Agreements constitute continuing connected transactions for the Company under the Listing Rules.

As one or more applicable percentage ratios in respect of each of (i) the Revised Annual Caps and (ii) the New Annual Caps are more than 0.1% but less than 5%, the Transactions contemplated under the Agreements are subject to the announcement, reporting and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules. Details of the Transactions will be disclosed in the annual reports of the Company during the term of the Agreements in accordance with the Listing Rules.

* For identification purpose only

SUPPLEMENTAL AGREEMENT AND REVISION OF ANNUAL CAPS FOR EXISTING FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 9 December 2016 in relation to the continuing connected transactions under the Existing Framework Agreement entered into between the Company and KLN. Due to the recent acquisition of warehouses by the Group of which some units are leased to the KLN Group, the aggregate annual rental income receivable by the Group for the lease of the Leased Premises and the aggregate annual service fees payable by the Group for the KLN Services for the year ending 31 December 2019 are expected to be higher than the Existing Annual Caps under the Existing Framework Agreement.

Pursuant to the Existing Framework Agreement, the annual caps for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 in respect of (i) the rental income receivable by the Group for the lease of the Leased Premises were approximately HK\$11.6 million, HK\$12.0 million and HK\$12.4 million, respectively; and (ii) the service fees payable by the Group for the KLN Services were approximately HK\$9.9 million, HK\$10.5 million and HK\$11.5 million, respectively.

On 29 August 2019, the Company entered into the Supplemental Agreement with KLN to revise the Existing Annual Caps as follows:

	<u>For the financial year ending 31 December 2019</u>	
	<u>Existing Annual Caps</u>	<u>Revised Annual Caps</u>
	<u>HK\$ million</u>	<u>HK\$ million</u>
Rental income receivable by the Group for the lease of the Leased Premises	12.4	35.0
Service fees payable by the Group for the KLN Services	11.5	20.0

Save for the Existing Annual Caps, all other terms and conditions under the Existing Framework Agreement remain the same.

The Revised Annual Caps have been determined with reference to: previous transactions conducted, the historical transaction amounts of the Transactions, fees charged by independent third party service providers, as well as other factors including: (a) historical, current and projected rental for the Leased Premises; (b) the prevailing and projected market rates for rental and building management fees for comparable properties in the nearby area; (c) historical, current and projected management fees and fees for operation of warehouse facilities provided under the Transactions; (d) historical, current and projected market rates for insurance brokerages for comparable insurance products; (e) historical, current and projected rates on delivery, local courier and freight services; and (f) inflation and expected expansion and development of the businesses of the Group and the KLN Group.

RENEWAL OF FRAMEWORK AGREEMENT

As the Existing Framework Agreement will expire on 31 December 2019, the Company has entered into the 2019 Framework Agreement with KLN on substantially the same terms and conditions as the Existing Framework Agreement on 29 August 2019 in relation to the lease of the Leased Premises by the Group to the KLN Group and the provision of the KLN Services by the KLN Group to the Group. The principal terms of the 2019 Framework Agreement are summarised as follows:

- Date : 29 August 2019
- Parties : The Company and KLN
- Duration : The term will commence on 1 January 2020 and expire on 31 December 2022. The Parties may extend the term for a further term of three years, subject to compliance by each Party with the applicable requirements under the Listing Rules.
- Transactions : In its ordinary and usual course of business, the Group has entered into, and will continue to enter into, the Transactions with the KLN Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those available to each of them to or from independent third parties, (a) for the Group to lease the Leased Premises to the KLN Group; and (b) for the KLN Group to provide the KLN Services to the Group.
- Subsequent Agreements : The Parties will enter into the Subsequent Agreements for specific transactions covered by the 2019 Framework Agreement. The terms of the Subsequent Agreements will only contain provisions which are in all material respects consistent with the terms of the 2019 Framework Agreement.
- Pricing : The pricing of each of the Transactions will be determined by the Parties at the time of entry into the relevant Subsequent Agreement for such Transaction based on the applicable market practice and value, with reference to any relevant rules and regulations being effective at the time. In particular:
- For the lease of the Leased Premises, the rental shall be determined by the Parties at the time of entry into the relevant Subsequent Agreement based on the prevailing market rent for comparable properties in the nearby area;
- For the provision of the KLN Services:
- (a) in relation to logistics and freight services (that is, delivery, local courier, freight and freight agency services), the service fee shall be determined by the Parties at the time of entry into the relevant Subsequent Agreement with reference to the weight and type of cargo, mode of shipment, freight rate of the carrier and type of storage space required and the service fees charged by independent third party logistics and freight services providers;
 - (b) in relation to insurance brokerage and related services, the service fee shall be determined by the Parties at the time of entry into the relevant Subsequent Agreement with reference to the insurance brokerage fee charged by independent third party insurance companies from time to time for comparable type of insurance; and

- (c) in relation to services relating to management and operation of warehouse facilities (that is, building management, leasing and licensing management, warrant operations, IT support, human resources, administration and related services), the service fee shall be determined by the Parties at the time of entry into the relevant Subsequent Agreement with reference to the type, size and location of the premises and the relevant party/customers' specific requirements as well as the service fees charged by independent third party warehouse services providers.

Annual caps : The aggregate amounts payable by (a) the Group to the KLN Group for the KLN Services; and (b) the KLN Group to the Group for the lease of the Leased Premises under the Transactions for the relevant financial years shall not exceed the New Annual Caps during the term of the 2019 Framework Agreement.

TRANSACTION AMOUNTS AND THE ANNUAL CAPS

The transaction amounts paid/received by the Group under the Existing Framework Agreement for the years ended/ending 31 December 2017, 2018 and 2019 are set out below for reference:

<u>Transaction amounts</u>	<u>For the financial years ended/ending 31 December</u>		
	<u>2017</u> <u>HK\$ million</u>	<u>2018</u> <u>HK\$ million</u>	<u>2019</u> <u>HK\$ million</u>
Rental income received/to be received by the Group for the lease of the Leased Premises	8.7	8.6	11.0 [#]
Service fees paid/to be paid by the Group for the KLN Service	7.7	8.7	9.7 [#]

Being estimated figures for the period ended 29 August 2019.

The New Annual Caps for the Transactions are as follows:

<u>New Annual Caps</u>	<u>For the financial years ending 31 December</u>		
	<u>2020</u> <u>HK\$ million</u>	<u>2021</u> <u>HK\$ million</u>	<u>2022</u> <u>HK\$ million</u>
Rental income to be received by the Group for the lease of the Leased Premises	70.0	90.0	100.0
Service fees to be paid by the Group for the KLN Service	35.0	50.0	55.0

The New Annual Caps are determined by reference to previous transactions conducted and the historical transaction amounts under the Transactions, fees charged by independent third party service providers as well as other factors including:

- (a) historical, current and projected rental for the Leased Premises and such further premises (if any) that the Group will lease to the KLN Group during the subsistence of the 2019 Framework Agreement;
- (b) the prevailing and projected market rates for rental and building management fees for comparable properties in the nearby area;
- (c) historical, current and projected management fees and fees for operation of warehouse facilities provided under the Transactions;
- (d) historical, current and projected market rates for insurance brokerages for comparable insurance products;
- (e) historical, current and projected rates on delivery, local courier and freight services; and
- (f) inflation and expected expansion and development of the businesses of the Group and the KLN Group.

REASONS FOR AND BENEFIT OF ENTERING INTO THE AGREEMENTS

The lease of the Leased Premises is in the ordinary course of business of the Group. On the other hand, the acceptance of the KLN Services has facilitated, and will continue to facilitate, the operation of the Group's business.

The Directors (including the independent non-executive Directors) consider that the Agreements and the Transactions are entered into in the ordinary and usual course of business of the Group and believe that the terms of the Agreements are on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole. Mr. Kuok Khoon Hua, the Vice Chairman and Chief Executive Officer of the Company, has declared that he together with his associates hold more than 5% interest in KLN. He has abstained from voting on the relevant resolutions of the Board approving the Agreements and the Transactions.

INFORMATION OF THE GROUP AND THE KLN GROUP

The principal activity of the Company is investment holding and the principal activities of the Company's subsidiaries, associates and joint ventures comprise property development, investment and management in Hong Kong, the Mainland and the Asia Pacific region; hotel ownership in Hong Kong, and hotel ownership and operations in the Mainland; and integrated logistics and international freight forwarding.

KLN was incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the shares of which are listed on the Stock Exchange. The KLN Group's core business encompasses integrated logistics, international freight forwarding and supply chain solutions. With headquarters in Hong Kong, the KLN Group has a far-reaching global network that stretches across six continents, and includes one of the largest distribution network and hub operations in Greater China and the ASEAN region.

IMPLICATIONS UNDER THE LISTING RULES

KLN is a subsidiary of the controlling shareholder of the Company and is therefore a connected person of the Company, and the Transactions under the Agreements constitute continuing connected transactions for the Company under the Listing Rules.

As one or more applicable percentage ratios in respect of each of (i) the Revised Annual Caps and (ii) the New Annual Caps are more than 0.1% but less than 5%, the Transactions contemplated under the Agreements are subject to the announcement, reporting and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules. Details of the Transactions will be disclosed in the annual reports of the Company during the term of the Agreements in accordance with the Listing Rules.

DEFINITIONS

“2019 Framework Agreement”	the framework agreement dated 29 August 2019 entered into between the Company and KLN in relation to the Transactions;
“Agreements”	the Supplemental Agreement and the 2019 Framework Agreement;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Board”	the board of Directors;
“Company”	Kerry Properties Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“connected person”	has the meaning ascribed to it in the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules;
“Directors”	directors of the Company;
“Existing Annual Caps”	the existing annual caps adopted by the Company for the year ending 31 December 2019 in respect of the Transactions with the KLN Group as set out in the Existing Framework Agreement;
“Existing Framework Agreement”	the framework agreement dated 9 December 2016 entered into between the Company and KLN in relation to the Transactions;
“Group”	the Company and its subsidiaries;
“KLN”	Kerry Logistics Network Limited, incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“KLN Group”	KLN and its subsidiaries;

“KLN Services”	such services to be provided by the KLN Group to the Group from time to time, comprising delivery services, local courier services, freight services, freight agency services, insurance brokerage and related services, and services relating to management and operation of warehouse facilities, including building management, leasing and licensing management, warrant operations, IT support, human resources, administration and related services;
“Leased Premises”	the premises owned by the Group and leased or to be leased to the KLN Group from time to time, which include but not limited to, office premises, residential premises and warehouses;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“New Annual Caps”	the proposed aggregate annual caps for the Transactions for each of the three financial years ending 31 December 2022 pursuant to the 2019 Framework Agreement;
“Parties”	collectively, KLN and the Company, and a “Party” means any of them;
“percentage ratios”	has the meaning ascribed to it in the Listing Rules;
“Revised Annual Caps”	the revised annual caps adopted by the Company for the year ending 31 December 2019 in respect of the Transactions with the KLN Group as set out in the Supplemental Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsequent Agreement(s)”	the individual agreement(s) to be entered into between the Group and the KLN Group for the Transactions from time to time;
“Supplemental Agreement”	the supplemental agreement entered into between the Company and KLN on 29 August 2019, to amend certain terms of the Existing Framework Agreement; and

“Transactions”

the transactions between the Group and the KLN Group from time to time in relation to the lease of the Leased Premises by the Group to KLN Group and the provision of the KLN Services by the KLN Group to the Group.

By Order of the Board
Kerry Properties Limited
Li Siu Ching, Liz
Company Secretary

Hong Kong, 29 August 2019

As at the date of this announcement, the Directors of the Company are:

Executive Directors: *Messrs. Wong Siu Kong, Kuok Khoon Hua, Bryan Pallop Gaw and Wong Chi Kong, Louis*

Independent Non-

executive Directors: *Mr. Ku Moon Lun, Ms. Wong Yu Pok, Marina, JP and Mr. Chang Tso Tung, Stephen*