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KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司*

website: www.kerryprops.com

(Stock Code: 00683)

PROPOSED ISSUE OF CONVERTIBLE BONDS AND RESUMPTION OF TRADING

The Directors are pleased to announce that on 22 January 2007, the Company and the Issuer entered into the Subscription Agreement with the Manager in connection with the issue of Convertible Bonds by the Issuer, guaranteed by the Company, with an aggregate principal amount of HK$2,350,000,000. The Convertible Bonds are denominated in Hong Kong dollars and are convertible into ordinary shares of HK$1.00 each in the share capital of the Company.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. Please refer to the sub-section headed "Conditions of the Subscription Agreement" below for further information. In addition, the Subscription Agreement may be terminated in certain circumstances. Please refer to the sub-section headed "Termination" below for further information.

The Convertible Bonds will be offered and sold to persons whose ordinary business involves buying, selling or investing in securities outside the United States in reliance upon Regulation S. None of the Convertible Bonds will be offered to the public in Hong Kong and none of the Convertible Bonds will be placed to any connected person (as defined in the Listing Rules) of the Company.

An application will be made for the listing of, and permission to deal in, the Convertible Bonds on the Hong Kong Stock Exchange. The Company will apply to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The net proceeds from the issue of the Convertible Bonds are estimated to be approximately HK$2,325,000,000. The aggregate expenses relating to the Convertible Bonds amount to approximately HK$25,000,000 and include commissions, professional fees and other ancillary expenses. The net proceeds are currently intended to be used for general corporate purposes.

As the Subscription Agreement may or may not complete, Shareholders and the holders of the Convertible Bonds 2005 and prospective investors are advised to exercise caution when dealing in the securities of the Company.

At the request of the Company, trading in the Shares and the Convertible Bonds 2005 on the Hong Kong Stock Exchange was suspended. The suspension took effect from 9:30 a.m. (Hong Kong time) on 23 January 2007 pending the release of this announcement, and application has been made by the Company for the resumption of trading in the Shares and the Convertible Bonds 2005 on the Hong Kong Stock Exchange with effect from 9:30 a.m. (Hong Kong time) on 24 January 2007.

1. SUBSCRIPTION AGREEMENT DATED 22 JANUARY 2007

Introduction

The Directors are pleased to announce that on 22 January 2007, the Company and the Issuer entered into the Subscription Agreement with the Manager in connection with the issue of the Convertible Bonds with an aggregate principal amount of HK$2,350,000,000. The Convertible Bonds are denominated in Hong Kong dollars and are convertible into ordinary shares of HK$1.00 each in the share capital of the Company.

Parties

(a) the Issuer;

(b) the Company; and

(c) the Manager.

The Manager is the manager in respect of the subscription and issue of the Convertible Bonds. The Manager is not a connected person (as defined in the Listing Rules) of the Company.

Subject to the fulfilment of the conditions set out below under the sub-section headed "Conditions of the Subscription Agreement" and pursuant to the terms of the Subscription Agreement, the Manager has agreed to subscribe or procure subscribers to subscribe for the Convertible Bonds.

The Manager or any person acting for or on behalf of the Manager, may (to the extent permitted by applicable laws and directives) over-allot and effect transactions with a view to supporting the market price of the Convertible Bonds at a level higher than that which might otherwise prevail in the open market but in doing so the Manager shall act as principal and not as agent of the Issuer and any loss resulting from over-allotment or stabilisation shall be borne, and any profit arising therefrom shall be beneficially retained, by the Manager. To the extent any stabilisation activity is conducted in Hong Kong, the Manager will conduct such stabilisation activity in accordance with all applicable laws and regulations (including, but not limited to, the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)).

None of the Convertible Bonds will be offered to the public in Hong Kong and none of the Convertible Bonds will be placed to any connected person (as defined in the Listing Rules) of the Company.

Conditions of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon, among other things:

(a) the Hong Kong Stock Exchange having agreed to list the Conversion Shares (or the Manager being reasonably satisfied that such listing will be granted);

(b) the execution of a trust deed and paying and conversion agency agreement in relation to the Convertible Bonds, each in a form reasonably satisfactory to the Manager;

(c) the delivery to the Manager of certain legal opinions on British Virgin Islands and Bermudian legal matters and of auditor's comfort letters in respect of the audited financial accounts of the Group each in a form reasonably satisfactory to the Manager; and

(d) at the Closing Date, there having not occurred any change, or any development or event reasonably likely to involve a prospective change in the financial or trading position, earnings or business affairs of the Group as a whole, which in the opinion of the Manager is material and adverse and which would in the Manager's view be likely to prejudice materially the success of the offering and distribution of the Bonds or dealings in the Bonds in the secondary market.

The Issuer and the Company have agreed to take such reasonable steps as may be required for the listing of the Convertible Bonds on the Hong Kong Stock Exchange as soon as practicable after the Closing Date.

Certain undertakings relating to the Subscription Agreement

The Company has undertaken to the Manager (among other things) that subject to certain exceptions including the exercise of the Share Options, the issue of bonus or scrip dividend and the conversion of any outstanding convertible bonds (including the Convertible Bonds 2005), it will not (and will procure none of its nominees or subsidiaries will) for a period of 90 days from the Closing Date, without the prior written consent of the Manager, (i) allot or issue, or offer to allot or issue, or grant any option, right or warrant to subscribe any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interests in Shares; or (ii) agree to enter into or effect any such transaction with the same economic effect as any of the transactions described in (i) above; or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above.

Termination

The Subscription Agreement may be terminated in certain circumstances. In particular, the Manager may (but except in the case of (a) below, only after consultation with the Company to the extent reasonably practicable), terminate the Subscription Agreement by notice to the Issuer at any time prior to the payment of the net subscription monies for the Convertible Bonds to the Issuer. Such circumstances include, without limitation:

(a) if there comes to the notice of the Manager any breach of, or any event rendering untrue or incorrect in any material respect, any of the representations and warranties in the Subscription Agreement or any failure to perform any of the Issuer's undertakings or agreements in the Subscription Agreement, except any non-performance of undertakings or agreements which would not be material in the context of the offering of the Convertible Bonds; and

(b) if there occurs any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions or currency exchange rates or foreign exchange controls which would in the Manager's view be likely to prejudice materially the success of the issue and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market.

Subject to the foregoing, completion of the subscription and issue of the Convertible Bonds shall take place on the Closing Date (or such other date on or before 22 March 2007 as the Issuer, the Company and the Manager shall agree).

Principal Terms of the Convertible Bonds

The principal terms of the Convertible Bonds are summarised as follows:

Issuer	The Issuer
Guarantor	The Company
Principal Amount	HK$2,350,000,000 in aggregate
Maturity Date	22 February 2012
Issue Price	100% of the principal amount
Interest	The Convertible Bonds will not bear any interest
Conversion	Subject to the relevant Bondholder complying with the procedures relating to conversion, the Convertible Bonds are convertible at any time on or after 4 April 2007 up to the close of business on 8 February 2012 into Shares at the Conversion Price (as described below) (subject to adjustment).
Conversion Price	The initial price at which Conversion Shares will be issued will be HK$52.65 per Conversion Share. The Conversion Price will be subject to adjustment for certain events including mainly, any alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, issue of Shares to Shareholders credited as fully paid by way of capitalisation of profits or reserves, capital distribution, bonus issues, rights issues, or other options, warrants or other rights to subscribe for Shares or other securities at less than the then applicable current market price, certain modification of rights of conversion attaching to securities and other securities offers to Shareholders.
Redemption at Maturity	Unless previously redeemed, converted or purchased and cancelled in the circumstances set out in the Terms and Conditions, the Issuer will redeem the outstanding Convertible Bonds on the Maturity Date (as described above) at 117.203% of the principal amount thereof.
Redemption at the option of the Issuer	The Issuer may redeem the Convertible Bonds, in whole or in part, on or at any time after 22 February 2010, but not less than 7 business days prior to the Maturity Date at the Early Redemption Amount at the date on which such redemption may take place provided that the closing price of the Shares for each of any 20 Trading Days falling within a period of 30 consecutive Trading Days, the last day of which period occurs no more than 5 Trading Days immediately prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price in effect on each such Trading Day. If at any time the aggregate principal amount of the Convertible Bonds outstanding is less than 10% of the aggregate principal amount originally issued, the Issuer shall have the option to redeem such outstanding Convertible Bonds in whole, but not in part, at their Early Redemption Amount.

Form and Denomination	The Convertible Bonds will be in registered form and in denominations of HK$10,000 each or integral multiples thereof. The Convertible Bonds will be represented by a global certificate, which will be registered in the name of a nominee of, and will be deposited on or about the Closing Date with a common depositary for, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme.
Status	The Convertible Bonds will be direct, unsubordinated, unconditional and unsecured obligations of the Issuer and will at all times, except as may be required by mandatory provisions of law, rank at least *pari passu* in right of payment with all other present and future direct, unsubordinated, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu* among themselves.
Negative Pledge	So long as any Convertible Bond remains outstanding, the Issuer and the Company have agreed that, unless certain conditions are met, they will not create or permit to subsist, and the Company will procure that no Principal Subsidiary (as defined in the Terms and Conditions) will create or permit to subsist, any Security upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Investment Securities or to secure any guarantee of or indemnity in respect of any Investment Securities.
Listing	Application will be made for the listing of, and permission to deal in, the Convertible Bonds on the Hong Kong Stock Exchange. Application will be made for the listing of, and permission to deal in, the Conversion Shares on the Hong Kong Stock Exchange.

Comparison of the Conversion Price

The Conversion Price of HK$52.65 per Conversion Share (subject to adjustment) represents (i) a premium of 35% to the closing price of HK$39 per Share as quoted on the Hong Kong Stock Exchange on 22 January 2007; (ii) a premium of approximately 41.9% to the average closing price of HK$37.10 per Share as quoted on the Hong Kong Stock Exchange for the 10 Trading Days up to and including 22 January 2007; and (iii) a premium of approximately 39.2% to the average closing price of HK$37.83 per Share as quoted on the Hong Kong Stock Exchange for the 5 Trading Days up to and including 22 January 2007. The Conversion Price of HK$52.65 represents a premium of approximately 154% as compared with the net asset value per share of the Company of HK$20.73 as shown in the Group's latest audited financial statements as at 31 December 2005.

Conversion Shares

For illustrative purpose and assuming full conversion at the Conversion Price of HK$52.65 per Conversion Share (subject to adjustment), the Convertible Bonds with an aggregate principal amount of HK$2,350,000,000 are convertible into approximately 44,634,377 Conversion Shares, representing approximately 3.60% of the existing issued share capital of the Company and approximately 3.48% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares will be issued pursuant to the general mandate given to the Directors at the annual general meeting of the Company held on 3 May 2006. The said general mandate has not been utilized before the issue of the Convertible Bonds.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated in certain circumstances. As the Subscription Agreement may or may not complete, Shareholders and prospective investors are advised to exercise caution when dealing in the shares of the Company.

2. CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

On the basis of disclosures made pursuant to the Securities and Futures Ordinance, the shareholdings in the Company before and after the issue of the Conversion Shares and Conversion Shares 2005 (without taking into account the Shares to be issued pursuant to the exercise of the outstanding Share Options as at the date of this announcement) are summarized as follows:

	Existing		**After the issue of Conversion Shares and Conversion Shares 2005** *Note*	
	No. of Shares	*%*	*No. of Shares*	*%*
Kerry Group Limited	702,917,379	56.73	702,917,379	50.94
Directors of the Company	6,234,069	0.50	6,234,069	0.45
Holders of the Conversion Shares 2005	–	–	96,320,554	6.98
Holders of the Conversion Shares	–	–	44,634,377	3.23
Public	529,939,282	42.77	529,939,282	38.40
Total	1,239,090,730	100.00	1,380,045,661	100.00

Note:

On the basis that the Convertible Bonds with an aggregate principal amount of HK$2,350,000,000 have all been converted at the Conversion Price of HK$52.65, the Convertible Bonds 2005 with an aggregate principal amount of HK$2,500,000,000 have all been converted at the conversion price of HK$25.955 and the Company has not issued any other new Shares. Apart from the Convertible Bonds, the Convertible Bonds 2005 and the Share Options, the Company does not have any other outstanding option, right or warrant which is convertible into or exercisable or exchangeable for the Shares.

3. NET PROCEEDS, REASONS FOR THE ISSUE OF CONVERTIBLE BONDS AND USE OF PROCEEDS

The net proceeds from the issue of the Convertible Bonds are estimated to be approximately HK$2,325,000,000. The aggregate expenses relating to the Convertible Bonds amount to approximately HK$25,000,000 and include commissions, professional fees and other ancillary expenses.

The Directors consider that in view of the existing capital structure of the Group, the issue of the Convertible Bonds provides a flexible and cost-efficient funding opportunity which is in the best interest of the Group. Upon conversion of the Convertible Bonds, the capital base of the Company will be enlarged and strengthened which will benefit the Group's future growth and developments.

It is the present intention of the Directors to use the net proceeds from the issue of the Convertible Bonds for general corporate purposes.

4. SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares and the Convertible Bonds 2005 on the Hong Kong Stock Exchange was suspended. The suspension took effect from 9:30 a.m. (Hong Kong time) on 23 January 2007 pending the release of this announcement, and application has been made by the Company for the resumption of trading in the Shares and the Convertible Bonds 2005 on the Hong Kong Stock Exchange with effect from 9:30 a.m. (Hong Kong time) on 24 January 2007.

As the Subscription Agreement may or may not complete, Shareholders and the holders of the Convertible Bonds 2005 and prospective investors are advised to exercise caution when dealing in the securities of the Company.

5. GENERAL INFORMATION

The Company has not carried out any fund raising activity through the issue of equity securities or securities which are convertible into equity securities in the 12 months immediately preceding this announcement.

The Group is principally engaged in (i) property development, investment and management in Hong Kong, the PRC and the Asia Pacific region; (ii) logistics, freight, warehouse ownership and operations; (iii) infrastructure-related investments in Hong Kong and the PRC; and (iv) hotel ownership and operations in the PRC.

DEFINITIONS

"Bondholder(s)"	holder(s) of the Convertible Bonds
"Closing Date"	22 February 2007
"Company"	Kerry Properties Limited, an exempted company incorporated in Bermuda with limited liability, the securities of which are listed on the Hong Kong Stock Exchange
"Conversion Share(s)"	the new Share(s) to be issued by the Company upon conversion of the Convertible Bonds
"Conversion Shares 2005"	the new Shares to be issued by the Company upon any conversion of the Convertible Bonds 2005
"Convertible Bond(s)"	Hong Kong dollar-denominated zero coupon convertible bond(s) due 2012 to be issued by the Issuer and guaranteed by the Company pursuant to the Subscription Agreement in an aggregate principal amount of HK$2,350,000,000
"Convertible Bonds 2005"	HK$2,500,000,000 Zero Coupon Guaranteed Convertible Bonds issued in 2005 by Wise Insight Finance Limited, a wholly-owned subsidiary of the Company, due 2010 convertible into Shares and which are listed on the Hong Kong Stock Exchange (stock code: 2514)
"Directors"	the directors of the Company
"Early Redemption Amount"	in relation to a Convertible Bond, for each HK$10,000 principal amount of the Convertible Bond, is the monetary amount which represents for the Bondholder a gross yield of 3.20% per annum calculated on a semi-annual basis

"Group"	the Company and its subsidiaries
"HK$"	the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Investment Securities"	any present or future indebtedness in the form of, or represented by, bonds, debentures, notes or other investment securities which are for the time being, or are intended to be or capable of being, quoted, listed or ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market having an original maturity of more than 365 days from its date of issue
"Issuer"	Gainlead International Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Manager"	J.P. Morgan Securities Ltd.
"PRC"	the People's Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"Regulation S"	Regulation S under the United States Securities Act of 1933, as amended
"Security"	any mortgage, charge, pledge, lien or other form of encumbrance or security interest other than liens arising by operation of law
"Share(s)"	ordinary share(s) of HK$1.00 each in the share capital of the Company
"Share Option(s)"	share options granted under the share option schemes of the Company adopted on 27 March 1997 and 17 April 2002, respectively, entitling the holders thereof to subscribe for Shares and details of which are set out in the 2005 annual report and accounts of the Company
"Shareholder(s)"	holders of Share(s) as recorded on the registers of members of the Company
"Subscription Agreement"	the subscription agreement dated 22 January 2007 and made between the Manager, the Company and the Issuer in connection with the issue of the Convertible Bonds
"subsidiary"	has the meaning ascribed to it in section 2(4) of the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong)
"Terms and Conditions"	the terms and conditions of the Convertible Bonds to appear on the reverse side of each of the definitive certificates evidencing the Convertible Bonds
"Trading Day"	means a day on which the Hong Kong Stock Exchange is open for dealing business

"United States" or "US"	the United States of America, its territories and possessions, any state thereof, and the District of Columbia
"US Persons"	any persons or entities deemed to be a US person for the purposes of Regulation S
"%"	per cent.

As at the date of this announcement, the executive Directors are Messrs. Ang Keng Lam, Wong Siu Kong, Ho Shut Kan and Ma Wing Kai, William, the non-executive Director is Mr. Tse Kai Chi and the independent non-executive Directors are Messrs. William Winship Flanz, Lau Ling Fai, Herald and Christopher Roger Moss, O.B.E.

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

Hong Kong, 23 January 2007

* *for identification purpose only*

"Please also refer to the published version of this announcement in the South China Morning Post"