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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](http://www.kerryprops.com)*

**(Stock Code: 00683)**

### **CONNECTED TRANSACTION RELATING TO THE JOINT RE-DEVELOPMENT OF THE PROPERTY AT NOS. 863-865 KING'S ROAD, HONG KONG**

The Board announces that, on 8 September 2006, WGL, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with KHL.

Immediately prior to the entering into of the Sale and Purchase Agreement, WGL was the legal and beneficial owner of the entire issued share capital of JVCO. As at 31 August 2006, WGL has granted Shareholder's Loans in the amount of HK\$73,044,097.32 to JVCO. Pursuant to the Sale and Purchase Agreement, KHL agreed to acquire from WGL 60% of the entire equity interest in JVCO together with the same proportion of Shareholder's Loans. Following completion of the Sale and Purchase Agreement, JVCO will be owned by WGL and KHL in the proportions of 40% and 60%, respectively.

Pursuant to the Sale and Purchase Agreement, the JV Parties agreed that they will enter into the Shareholders' Agreement with JVCO upon completion of the Sale and Purchase Agreement. Pursuant to the Shareholders' Agreement, the amount and manner of funding by the JV Parties to JVCO and Ubagan shall be determined by the board of directors of JVCO from time to time provided that the maximum commitment (whether equity, loan, financial assistance or otherwise) which the JV Parties are required to provide to JVCO and Ubagan shall not exceed HK\$3,700,000,000.

WGL is an indirect wholly-owned subsidiary of the Company and KHL is the controlling shareholder of the Company. Under the Listing Rules, KHL is regarded as a connected person of the Company. Accordingly, the entering into of the Agreements constitutes a connected transaction for the Company under the Listing Rules. Although the consideration for the acquisition by KHL from WGL of 60% of the entire equity interest in JVCO together with the same proportion of Shareholder's Loans calculated in accordance with the terms of the Sale and Purchase Agreement is currently estimated to be less than 2.5% of the total assets and the market capitalisation of the Company, the maximum commitment of WGL under the Shareholders' Agreement exceeds 2.5% of the total assets and the market capitalisation of the Company. Therefore, the entering into of the Agreements is subject to the approval of the Independent Shareholders.

The Company will, as soon as practicable, despatch to the Shareholders a circular containing, among others, further details of the Agreements, a letter of advice from its independent financial adviser to its independent board committee and the Independent Shareholders in respect of the Agreements, a letter of advice containing the recommendation of its independent board committee to the Independent Shareholders in relation to the Agreements and a notice of its special general meeting.

## INTRODUCTION

The Board announces that, on 8 September 2006, WGL, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with KHL whereby KHL agreed to acquire from WGL 60% of the entire equity interest in JVCO together with the same proportion of Shareholder's Loans.

Immediately prior to the entering into of the Sale and Purchase Agreement, WGL was the legal and beneficial owner of the entire issued share capital of JVCO. As at 31 August 2006, WGL has granted Shareholder's Loans in the amount of HK\$73,044,097.32 to JVCO.

The sole asset of JVCO is its interest in the entire issued share capital of Ubagan. The sole asset of Ubagan comprises its rights under the King's Road Agreement, pursuant to which Ubagan shall acquire the Property upon the terms and conditions therein contained.

The acquisition costs of the Property under the King's Road Agreement amount to HK\$718,900,000 (the "**Acquisition Cost**"). 10% of the Acquisition Cost in the amount of HK\$71,890,000 has been paid by Ubagan to the vendor upon signing of the King's Road Agreement, and the balance of HK\$647,010,000 will be payable by Ubagan upon completion of the King's Road Agreement, which shall be on or before 31 October 2006.

Based on an independent valuation of the Property as at 31 August 2006 (the "**Independent Valuation**"), WGL and KHL agreed that the Property should be, for the purpose of the Sale and Purchase Agreement, valued at HK\$735,000,000 which is intended to represent the estimated amount for which the Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

## THE SALE AND PURCHASE AGREEMENT

Details of the Sale and Purchase Agreement are as follows:

- Date:** 8 September 2006
- Parties:** (a) WGL as vendor; and  
(b) KHL as purchaser.

**Consideration:** Pursuant to the Sale and Purchase Agreement, WGL agreed to transfer 60% of the entire issued share capital of JVCO to KHL together with the proportionate Shareholder's Loans at a consideration as determined and adjusted as follows:

***Scenario One***

*If completion of the Sale and Purchase Agreement takes place before completion of the King's Road Agreement:*

- (a) The consideration shall be calculated according to the following formula:

$$\text{Consideration} = (A_1 + B_1 + C_1 - D_1) \times 60\%$$

Where:

A<sub>1</sub> = HK\$73,500,000 (being the value of 10% of the Property, as per the Independent Valuation);

B<sub>1</sub> = HK\$14,490,000 (being the difference between the value of the remaining 90% of the Property as per the Independent Valuation and the value of the remaining 90% of the Property as per the Acquisition Cost);

C<sub>1</sub> = the total asset value as shown in the completion accounts of JVCO Group as at the completion of the Sale and Purchase Agreement excluding, for the purposes of this calculation, the following items: (i) deferred taxation, and (ii) the deposit paid in respect of the acquisition of the Property as set out in the completion accounts of JVCO Group as at the completion of the Sale and Purchase Agreement. Based on the unaudited consolidated management accounts of JVCO Group as at 31 August 2006, the total asset value of JVCO Group excluding the above (i) and (ii) amounted to HK\$1,185,497, which principally composed of deferred expenses and cash and bank balances as at 31 August 2006;

D<sub>1</sub> = the total liabilities as shown in the completion accounts of JVCO Group as at the completion of the Sale and Purchase Agreement excluding, for the purposes of this calculation, the following items: (i) deferred taxation, and (ii) the Shareholder's Loans. Based on the unaudited consolidated management accounts of JVCO Group as at 31 August 2006, the total liabilities of JVCO Group excluding the above (i) and (ii) amounted to HK\$40,000, which represents accounts payable as at 31 August 2006.

- (b) The consideration shall be payable as follows:
- (i) The full value of the consideration, less the value of 60% of the amount referred to in item B<sub>1</sub> shall be paid upon completion of the Sale and Purchase Agreement.
- (ii) The remaining amount shall be payable upon completion of the King's Road Agreement.

## ***Scenario Two***

*If completion of the Sale and Purchase Agreement takes place after completion of the King's Road Agreement:*

- (a) The consideration shall be calculated according to the following formula:

$$\text{Consideration} = (A_2 + C_2 - D_2) \times 60\%$$

Where:

A<sub>2</sub> = HK\$735,000,000 (being the value of the Property, as per the Independent Valuation);

C<sub>2</sub> = the total asset value as shown in the completion accounts of JVCO Group as at the completion of the Sale and Purchase Agreement excluding, for the purposes of this calculation, the following items: (i) deferred taxation, and (ii) the Acquisition Cost of the Property as set out in the completion accounts of JVCO Group as at the completion of the Sale and Purchase Agreement. Based on the unaudited consolidated management accounts of JVCO Group as at 31 August 2006, the total asset value of JVCO Group excluding the above (i) and (ii) amounted to HK\$1,185,497, which principally composed of deferred expenses and cash and bank balance as at 31 August 2006;

D<sub>2</sub> = the total liabilities as shown in the completion accounts of JVCO Group as at the completion of the Sale and Purchase Agreement excluding, for the purposes of this calculation, the following items: (i) deferred taxation, and (ii) the Shareholder's Loans. Based on the unaudited consolidated management accounts of JVCO Group as at 31 August 2006, the total liabilities of JVCO Group excluding the above (i) and (ii) amounted to HK\$40,000, which represents accounts payable as at 31 August 2006.

- (b) The consideration shall be payable in full upon completion of the Sale and Purchase Agreement.

### **Conditions:**

Completion of the Sale and Purchase Agreement is conditional upon, *inter alia*,

- (a) KHL being satisfied that the King's Road Agreement will not be amended and/or rescinded as a result of the transfer of the shareholding interests and shareholders' loans in JVCO;
- (b) the passing of the KPL Resolution;
- (c) compliance of all the Company's obligations under the Listing Rules;
- (d) KHL receiving evidence, reasonably satisfactory to it, that all authorisation, permits and approvals required by WGL and JVCO to consummate the transactions contemplated under the Agreements have been obtained; and
- (e) the simultaneous signing of the Shareholders' Agreement.

If the above conditions are not fulfilled or waived by 31 October 2006 or such later date as the JV Parties may agree, the Sale and Purchase Agreement shall terminate and no JV Party shall have any claims whatsoever against the other JV Party other than antecedent breaches.

## **THE SHAREHOLDERS' AGREEMENT**

Pursuant to the Sale and Purchase Agreement, the JV Parties agreed that they will enter into the Shareholders' Agreement with JVCO upon completion of the Sale and Purchase Agreement. The Shareholders' Agreement sets out the rights and obligations of the JV Parties in relation to the acquisition and re-development of the Property through JVCO.

Details of the Shareholders' Agreement are as follows:

**Parties:** (a) WGL;  
(b) KHL; and  
(c) JVCO.

**Scope of business:** With effect from the completion of the Sale and Purchase Agreement and unless otherwise agreed, the scope of business of JVCO is solely to invest in Ubagan and the scope of business of Ubagan is solely to acquire the Property in accordance with the terms of the King's Road Agreement, to undertake its construction and re-development and to hold the development for investment purpose.

**Total investment commitments:** Pursuant to the Shareholders' Agreement, if any funding by banks, financial institutions or other third parties is required, each JV Party shall provide or procure the provision of or make available by itself and/or its affiliates such form of financial assistance on a pro rata and several basis in accordance with its equity interest in JVCO and/or Ubagan (as the case may be) upon such terms and conditions as such lender(s) and the JV Parties may agree. If funding from the JV Parties is required, each JV Party shall provide or procure the provision of or make available by itself and/or its affiliates such funding on a pro rata and several basis in accordance with its equity interest in JVCO and/or Ubagan (as the case may be). The amount and manner of funding shall be determined by the board of directors of JVCO from time to time provided that the maximum commitment (whether equity, loan, financial assistance or otherwise) which the JV Parties are required to provide to JVCO and Ubagan shall not exceed HK\$3,700,000,000.

In the event that the funding is provided by the JV Parties to JVCO and/or Ubagan by way of shareholders' loans, such shareholders' loans may be interest-bearing or interest-free as the JV Parties shall agree, and where such shareholders' loans are interest-bearing, interest may be charged at such prevailing rate(s) as the JV Parties shall agree, which shall not exceed HIBOR for 3-month interest period plus 2% per annum, unless the JV Parties agree otherwise. Such shareholders' loans shall be non-revolving and shall only be repaid to the JV Parties on a pro rata basis in accordance with their then respective equity interest in JVCO and/or Ubagan (as the case may be), subject to any restrictions imposed by banks or financial institutions which have extended loans or facilities to JVCO and/or Ubagan.

- Board of directors:** The board of directors of JVCO shall initially consist of five directors, of whom two shall be nominated by WGL and three shall be nominated by KHL. If the proportion of voting rights of the JV Parties in JVCO changes, the JV Parties shall have the right to nominate directors to the board of JVCO so as to reflect, materially, their proportional voting rights in JVCO.
- Project management:** WGL will procure the Group to provide project development, construction management, project consultancy services, marketing and promotion consultancy services, tenancy management and agency services, book-keeping and company secretarial services (“**Project Management Services**”) during the period of construction of the project at a fee to be agreed between JVCO and the Group, which should not exceed 2% of the total construction costs. The total construction costs are currently estimated to be not more than HK\$1,000,000,000.
- Right to lease:** Upon completion of the re-development of the Property, the JV Parties shall procure that JVCO grant to each of the JV Party (or its affiliates) the right to lease upon such terms and conditions as the parties thereto may from time to time agree, subject always to the compliance by the Company with the requirements under the Listing Rules.

## **FINANCIAL EFFECTS OF THE AGREEMENTS**

The consideration for the transfer of WGL’s 60% interest in JVCO together with the proportionate Shareholder’s Loans to KHL under the Sale and Purchase Agreement was arrived at after arm’s length negotiations between the JV Parties, taking into account the Independent Valuation and the face value of the existing Shareholder’s Loans owed by JVCO to WGL. The maximum total investment amount under the Shareholders’ Agreement was arrived at after arm’s length negotiations between the JV Parties, taking into account the Acquisition Cost and the estimated re-development costs of the Property.

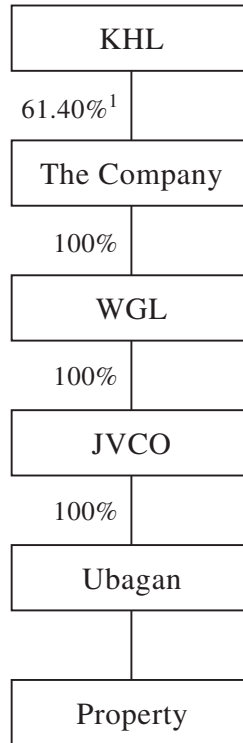
Based on the maximum total commitment (whether equity, loan, financial assistance or otherwise) of the JV Parties to JVCO and Ubagan under the Shareholders’ Agreement of HK\$3,700,000,000, the maximum commitment of WGL to JVCO and Ubagan is expected to be HK\$1,480,000,000 which will be sourced by the Company from the sale proceeds arising from the Sale and Purchase Agreement, internal resources and/or external bank borrowings of the Group. The funding requirement for making the maximum commitment is not expected to have any material impact on the Group.

Following completion of the Sale and Purchase Agreement, WGL will continue to be a wholly-owned subsidiary of the Group whereas JVCO will become an associated company of the Group, and WGL and JVCO will be accounted for accordingly.

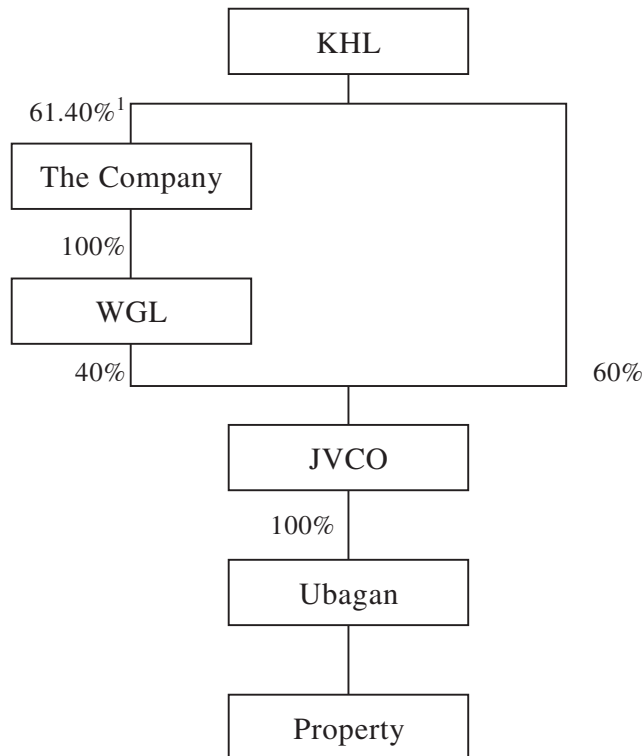
**INFORMATION ON JVCO**

Following completion of the Sale and Purchase Agreement, JVCO will be owned by WGL and KHL in the proportions of 40% and 60%, respectively. The shareholding structures of JVCO, immediately before and after completion of the Sale and Purchase Agreement, are as set out below:

**Before completion:**



**After completion:**



*Note 1: As at the date of this announcement, KHL is interested in 752,972,645 Shares as disclosed under the SFO, representing approximately 61.40% of the existing issued share capital of the Company.*

JVCO was established as a limited liability company on 10 August 2005 in the British Virgin Islands. The sole asset of JVCO is its interest in the entire issued share capital of Ubagan. The sole asset of Ubagan comprises its rights under the King's Road Agreement, pursuant to which Ubagan shall acquire the Property from the vendor which is an independent third party. Completion of the King's Road Agreement will take place on any date from 1 August 2006 to 31 October 2006 upon the vendor issuing a written notice of at least 14 days to Ubagan.

Based on the unaudited consolidated management accounts of JVCO Group as at 31 August 2006, the loss of the JVCO Group for the period from 10 August 2005, which is the date of incorporation of JVCO, to 31 August 2006 amounted to HK\$8,678.14, and the shareholders' deficiency of JVCO Group as at 31 August 2006 amounted to HK\$8,600.14.

## **INFORMATION ABOUT THE COMPANY, WGL AND KHL**

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 investment in Hong Kong and the PRC; and (iv) hotel ownership and operations in the PRC.

WGL is an investment holding company established in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company.

KHL is an investment holding company. As at the date of this announcement, KHL is interested in 752,972,645 Shares as disclosed under the SFO, representing approximately 61.40% of the existing issued share capital of the Company and is the controlling shareholder of the Company.

## **REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE AGREEMENTS**

The purpose of the Agreements is to enable the JV Parties to jointly re-develop the Property into a Grade A office development. The new development is expected to enhance shareholders' value by providing recurrent income for the Company. By re-developing the Property jointly with KHL, the Company will benefit from the extensive business affiliation and network of KHL in securing a strong and quality tenancy profile for the new development.

It is currently expected that, subject to mutually acceptable terms and conditions, part of the premises after the re-development of the Property may be leased by any member or members of the Group and of the KHL group as their corporate offices. The Company considers that the operational efficiency as a result of grouping the members of KHL group (including the Company) in one building is desirable. If the Group enters into leases with JVCO or its subsidiaries, the transactions contemplated under such leases may constitute continuing connected transactions for the Company. Under such circumstances, the Company will ensure compliance with its obligations under the Listing Rules.

The re-development of the Property is expected to commence in the last quarter of 2006 and is currently estimated to be completed in or around June 2009.

## **IMPLICATIONS UNDER THE LISTING RULES**

Under the Listing Rules, KHL is regarded as a connected person of the Company. Accordingly, the entering into of the Agreements constitutes a connected transaction for the Company under the Listing Rules. The total assets of the Company as at 31 December 2005 (being the date on which the audited financial statements of the Company were last published) as adjusted by the proposed final dividends for the year ended 31 December 2005 were HK\$44,622,410,000 and the market capitalisation of the Company (determined on the basis of the average closing price of the Shares for the five trading days immediately preceding the date of the Sale and Purchase Agreement) is HK\$35,990,938,710. Although the consideration for the acquisition by KHL from WGL of 60% of the entire equity interest in JVCO together with the same proportion of Shareholder's Loans calculated in accordance with the terms of the Sale and Purchase Agreement is currently estimated to be less than 2.5% of the total assets and the market capitalisation of the Company, the maximum commitment of WGL under the Shareholders' Agreement exceeds 2.5% of the total assets and the market capitalisation of the Company. Therefore, the entering into of the Agreements is subject to the approval of the Independent Shareholders.

An independent board committee will be established by the Board to consider the Agreements and to advise the Independent Shareholders. An independent financial adviser will be appointed by the Company to make recommendations to the independent board committee and the Independent Shareholders in relation to the Agreements.

The Company will, as soon as practicable, despatch to the Shareholders a circular containing, among others, further details of the Agreements, a letter of advice from its independent financial adviser to its independent board committee and the Independent Shareholders in respect of the Agreements, a letter of advice containing the recommendation of its independent board committee to the Independent Shareholders in relation to the Agreements and a notice of its special general meeting.

The Directors (other than the independent non-executive Directors) believe that the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The independent non-executive Directors would not be able to form the view as to whether the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole unless and until they have discussed with the independent financial adviser and reviewed its letter of advice.

## **GENERAL**

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.

## **DEFINITIONS**

“Agreements”	collectively, the Sale and Purchase Agreement and the Shareholders' Agreement;
“associate”	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 HKSE;
“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;
“Group”	KPL and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKSE”	The Stock Exchange of Hong Kong Limited;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Independent Shareholders”	Shareholders who are not required to abstain from voting in respect of the KPL Resolution(s);
“JV Parties”	collectively, WGL and KHL;
“JVCO”	Able Time Group Limited, a company incorporated in the British Virgin Islands;
“JVCO Group”	JVCO and its subsidiaries from time to time (including Ubagan);
“KHL”	Kerry Holdings Limited, a company incorporated in Hong Kong, being the controlling shareholder of the Company;
“King’s Road Agreement”	the memorandum of agreement for sale and purchase of the Property dated 13 March 2006 entered into by, <i>inter alia</i> , Ubagan as purchaser and the vendor which is an independent third party;
“KPL Resolution(s)”	the resolution(s) to ratify, confirm and approve the Agreements and the transactions contemplated thereunder by the Independent Shareholders at the special general meeting of the Company;
“Listing Rules”	The Rules Governing the Listing of Securities on HKSE;
“PRC”	The People’s Republic of China;
“Property”	the property at Nos. 863-865 King’s Road, Hong Kong (Inland Lot Nos. 8687 and 7737);
“Sale and Purchase Agreement”	the sale and purchase agreement dated 8 September 2006 entered into by WGL and KHL whereby KHL agreed to acquire 60% equity interests in JVCO together with the same proportion of Shareholder’s Loans from WGL;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$1.00 each in the capital of the Company;
“Shareholder(s)”	holder(s) of Shares;
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into by WGL, KHL and JVCO setting out the rights and obligations of the JV Parties in relation to the acquisition and re-development of the Property through JVCO;
“Shareholder’s Loans”	the shareholder’s loans advanced from WGL to JVCO up to the date of the completion of the Sale and Purchase Agreement;

“Ubagan” Ubagan Limited, a company incorporated in Hong Kong whose entire issued share capital is owned by JVCO;

“WGL” Whole Grace Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company; and

“%” per cent.

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

Hong Kong, 13 September 2006

\* *For identification purpose only*

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