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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:
RENEWAL OF HOTEL MANAGEMENT AGREEMENT AND
MARKETING AND TRAINING SERVICES AGREEMENT
IN RELATION TO KERRY HOTEL, BEIJING**

Reference is made to the announcement of the Company dated 30 May 2006 in relation to the continuing connected transactions contemplated under the 1998 Agreements which will expire on 27 August 2019. On 26 August 2019, BKH has entered into the Agreements with SLIM-HK and SLIM-PRC, respectively, in relation to Hotel Management Services and Sales, Marketing and Training Services provided by them to the Hotel owned by BKH.

BKH is a 71.25%-owned subsidiary of the Company. Each of SLIM-HK and SLIM-PRC is a wholly-owned subsidiary of SA. KHL is the controlling shareholder of both the Company and SA. Therefore, each of SA, SLIM-HK and SLIM-PRC is an associate of KHL and a connected person of the Company, and the entering into of the Agreements constitutes continuing connected transactions for the Company under the Listing Rules.

As one or more applicable percentage ratios in respect of the Annual Cap under the Agreements are more than 0.1% but less than 5%, the Transactions 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.

As the term of the Agreements exceeds three years, pursuant to the requirements of the Listing Rules, the Company has obtained the opinion from its independent financial adviser, Elstone, confirming that it is normal business practice for the Agreements to be of such duration.

* For identification purpose only

INTRODUCTION

Reference is made to the announcement of the Company dated 30 May 2006 in relation to the continuing connected transactions contemplated under the 1998 Agreements which will expire on 27 August 2019. On 26 August 2019, BKH has entered into the Agreements with SLIM-HK and SLIM-PRC, respectively, in relation to Hotel Management Services and Sales, Marketing and Training Services provided by them to the Hotel owned by BKH.

HOTEL MANAGEMENT AGREEMENT

The principal terms of the Hotel Management Agreement are summarised as follows:-

- Date: 26 August 2019
- Parties: (i) BKH (as Hotel owner)
(ii) SLIM-HK (as service provider)
- Services: SLIM-HK will provide Hotel Management Services for the Hotel
- Term: 20 years commencing from 28 August 2019
- Renewal period: Option to renew for 10 years, exercisable by mutual agreement of both parties
- Fees: The fees payable by BKH to SLIM-HK for the provision of Hotel Management Services mainly comprise:-
- (i) Base management fee: a fixed percentage of the gross operating revenue of the Hotel per annum;
 - (ii) Incentive management fee: a variable percentage of the adjusted gross operating profit of the Hotel per annum;
 - (iii) Branding fund: a fixed amount per room of the Hotel per annum; and
 - (iv) Reservation fees: a fixed percentage of room revenue per booking for reservation services.

The fees payable by BKH to SLIM-HK under the Hotel Management Agreement were determined after arm's length negotiations based on normal commercial principles.

MARKETING AND TRAINING SERVICES AGREEMENT

The principal terms of the Marketing and Training Services Agreement are summarised as follows:-

- Date: 26 August 2019
- Parties: (i) BKH (as Hotel owner)
(ii) SLIM-PRC (as service provider)
- Services: SLIM-PRC will provide Sales, Marketing and Training Services for the Hotel
- Term: Commencing from 28 August 2019 and ending on the termination date of the Hotel Management Agreement
- Fees: The fees payable by BKH to SLIM-PRC for the provision of Sales, Marketing and Training Services mainly comprise:-
- (i) Sales and marketing fee: a fixed percentage of the gross operating revenue of the Hotel per annum; and
 - (ii) Training fee: a fixed percentage of the annual total base salary of all employees employed by BKH with respect to the Hotel.

The fees payable by BKH to SLIM-PRC under the Marketing and Training Services Agreement were determined after arm's length negotiations based on normal commercial principles.

ANNUAL CAP

The annual aggregate fees paid by the Group under the 1998 Agreements since 1998 were less than RMB24.5 million (approximately HK\$27.195 million) per annum.

Based on the terms of the Agreements, the historical amount paid under the 1998 Agreements and the expected occupancy of the Hotel and taking into account possible inflation, reasonable buffer to allow for increase in the room rate and the occupancy rate of the Hotel as well as the prevailing exchange rate, the estimated Annual Cap payable by BKH for each of the financial years ending 31 December 2039 will not exceed RMB110 million (approximately HK\$122.1 million).

The terms (including the fees for the Hotel Management Services and the Sales, Marketing and Training Services) of the Agreements were arrived at after arms' length negotiations between BKH and SLIM-HK (in respect of the Hotel Management Agreement) and SLIM-PRC (in respect of the Marketing and Training Services Agreement). If the maximum annual amount of the aggregate fees payable by BKH to SLIM-HK and SLIM-PRC for the Hotel Management Services and the Sales, Marketing and Training Services under the Agreements respectively in any financial year exceeds the Annual Cap, the Company will re-comply with the requirements under the Listing Rules.

INDEPENDENT FINANCIAL ADVISER'S OPINION ON THE TERM OF THE AGREEMENTS

As the term of the Agreements exceeds three years, pursuant to the requirements of the Listing Rules, the Company has obtained opinion from its independent financial adviser, Elstone, confirming that it is normal business practice for the Agreements to be of such duration.

In assessing the reasonableness for the duration of the Agreements to be longer than three years, Elstone has considered the following factors:-

- (i) In general, from the perspective of hotel owners, they wish to maintain the operational consistency and minimise the risks and costs associated with the frequent switch of hotel managers, where substantial capital and initial cash outlay and extensive time period are normally required for the marketing and branding of new hotels, properly set up and customize hotels in accordance with specific high-quality standards and operation requirements of each new hotel manager. It is therefore practical and commercially sensible by entering into the contracts of this type to be of relatively longer duration.
- (ii) SA and its subsidiaries are experienced and possess the expertise and brand recognition in hotel management. The Hotel has been managed by SLIM-HK since its commencement of business in 1999 for 20 years. Under the management of SLIM-HK, the Hotel recorded a high average occupancy rate of up to 85% in preceding three years ended 31 December 2018, according to the annual reports of the Company.
- (iii) Based on the industry reports, it is not uncommon for hotel management agreements in the Asia Pacific and Europe to have a tenure of 20 years or above. Therefore, the duration of the Agreements of 20 years is in line with the normal business practice. It is also noted that more upscale operators tend to require longer initial contract terms in order to secure a continuing management of the hotels without disruption.
- (iv) In accordance with the research of certain comparable transactions in the past 10 years involving the entering into of hotel management agreements of similar nature where one of the parties (or their holding companies) are listed on the Stock Exchange (the “**Comparable Transactions**”), 16 out of 32 of the Comparable Transactions are noted to have a tenure of 10 years or above, which range from 10 years to 30 years. Therefore, the tenure of the Agreements of 20 years is within the range of the initial term of the Comparable Transactions and it is not uncommon to enter into hotel management agreements with a relatively longer duration.

Based on the above, Elstone considers a period longer than three years for the Agreements is required and confirms that it is normal business practice for agreements of this type to be of such duration.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS

SLIM-HK's and SLIM-PRC's expertise and principal business activities are the provision of hotel management services and BKH's principal business activities include the ownership and development of the Hotel. Moreover, in the past 20 years, SLIM-HK's management showed satisfactory results in operation and returns. Accordingly, it is in the interests of BKH to enter into the Agreements with SLIM-HK and SLIM-PRC for the provision of the Hotel Management Services and Sales, Marketing and Training Services respectively to the Hotel.

The Directors (including the independent non-executive Directors) consider that 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 SA. He has abstained from voting on the relevant resolutions of the Board approving the Transactions.

INFORMATION ABOUT THE PARTIES

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.

BKH is principally engaged in the ownership and operation of the Hotel.

The principal business activities of SLIM-HK and SLIM-PRC are the provision of hotel management, hotel marketing, hotel training and other related services.

IMPLICATIONS UNDER THE LISTING RULES

BKH is a 71.25%-owned subsidiary of the Company. Each of SLIM-HK and SLIM-PRC is a wholly-owned subsidiary of SA. KHL is the controlling shareholder of both the Company and SA. Therefore, each of SA, SLIM-HK and SLIM-PRC is an associate of KHL and a connected person of the Company, and the entering into of the Agreements constitutes continuing connected transactions for the Company under the Listing Rules.

As one or more applicable percentage ratios in respect of the Annual Cap under the Agreements are more than 0.1% but less than 5%, the Transactions 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

“1998 Agreements”	the hotel management, marketing and related agreements entered into between BKH and SLIM-HK on 30 June 1998 for the provision of hotel management services to the Hotel;
“Agreements”	the Hotel Management Agreement and the Marketing and Training Services Agreement;
“Annual Cap”	the maximum annual amount of the aggregate fees payable by BKH to SLIM-HK and SLIM-PRC for the Hotel Management Services and the Sales, Marketing and Training Services under the Agreements respectively;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“BKH”	Beijing Kerry Hotel Co., Ltd., a sino-foreign equity joint venture enterprise established in the PRC and owned as to 71.25% by the Company, 23.75% by SA and 5% by an independent third party;
“Board”	the board of Directors of the Company;
“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(s)”	has the meaning ascribed to it in the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it in the Listing Rules;
“Directors”	directors of the Company;
“Elstone”	Elstone Capital Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Group”	the Company and its subsidiaries;
“Hotel”	Kerry Hotel, Beijing, a hotel owned by BKH, situated at No. 1 Guang Hua Road, Chaoyang District, Beijing, the PRC;

“Hotel Management Agreement”	the hotel management agreement dated 26 August 2019 entered into between BKH and SLIM-HK for the provision of, amongst others, Hotel Management Services by SLIM-HK to the Hotel;
“Hotel Management Services”	hotel management services and reservation services to be provided by SLIM-HK in accordance with the Hotel Management Agreement to the Hotel;
“KHL”	Kerry Holdings Limited, a company incorporated in Hong Kong, which at the date of this announcement is the controlling shareholder of the Company;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Marketing and Training Services Agreement”	the marketing and training services agreement dated 26 August 2019 entered into between BKH and SLIM-PRC for the provision of Sales, Marketing and Training Services by SLIM-PRC to the Hotel;
“percentage ratios”	has the meaning ascribed to it in the Listing Rules;
“PRC”	The People’s Republic of China;
“Sales, Marketing and Training Services”	sales, marketing and training services to be provided by SLIM-PRC to the Hotel in accordance with the Marketing and Training Services Agreement;
“SA”	Shangri-La Asia Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are primarily listed on the Main Board of the Stock Exchange with secondary listing on the Singapore Exchange Securities Trading Limited;
“SLIM-HK”	Shangri-La International Hotel Management Limited (香格里拉國際飯店管理有限公司), a company incorporated in Hong Kong and is a wholly-owned subsidiary of SA;
“SLIM-PRC”	Shangri-La Hotel Management (Shanghai) Co., Ltd. (香格里拉飯店管理 (上海) 有限公司), a company incorporated in the PRC and is a wholly-owned subsidiary of SA;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Transactions”	the entering into of the Agreements by BKH with SLIM-HK and SLIM-PRC and the transactions contemplated thereunder.

Amounts denominated in RMB in the announcement has been converted into HK\$ at the rate of RMB1 = HK\$1.11 for illustration purpose.

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

Hong Kong, 26 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