KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司*

website: www.kerryprops.com

(Stock Code: 00683)

CONTINUING CONNECTED TRANSACTIONS

As set out in the previous annual reports of the Company, the Company has made disclosures in relation to hotel management, marketing and related agreements entered into between BKCH and SLIM on 30 June 1998, pursuant to which SLIM and its fellow subsidiaries are providing Hotel Management Services to The Kerry Centre Hotel in Beijing, PRC.

BKCH is the owner of The Kerry Centre Hotel, Beijing. BKCH is owned as to 95% by KBGH and 5% by a third party. KBGH is owned as to 75% by the Group and 25% by the SA Group.

SLIM is an indirect wholly-owned subsidiary of SA. SA is an associate of KHL (the Company's substantial shareholder) under the Listing Rules and is therefore a connected person of the Company. Under the Listing Rules, the provision of the Hotel Management Services is treated as continuing connected transactions of the Company and are subject to reporting, announcement and annual review requirements, but are exempt from shareholders' approval requirements of Chapter 14A of the Listing Rules. Details of the Hotel Management Agreements will be included in the Company's subsequent published annual reports and accounts for the financial years in which these transactions are subsisting.

DETAILS OF THE HOTEL MANAGEMENT SERVICES

As set out in the previous annual reports by the Company, SLIM and its fellow subsidiaries (wholly-owned subsidiaries of the SA Group) are currently providing Hotel Management Services to The Kerry Centre Hotel in Beijing, PRC pursuant to hotel management, marketing and related agreements entered into between BKCH and SLIM on 30 June 1998.

The provision of the Hotel Management Services to The Kerry Centre Hotel in Beijing, PRC constitutes continuing connected transactions of the Company under the Listing Rules. The details of the Hotel Management Agreements are as follows:-

Name of hotel:	The Kerry Centre Hotel, Beijing (owned by BKCH)
Parties:	BKCH and SLIM
Date of agreement:	30 June 1998, as modified by an addendum dated 26 January 2004
Nature of agreement:	Provision of hotel management, marketing, communication and reservation services
Term and expiry date:	20 years, expiring on 27 August 2019
Renewal period:	option to renew for 10 years, exercisable by mutual agreement of both parties

The fees paid by the Group pursuant to the Hotel Management Agreements comprise the following fees:-

1. Management fee: a certain percentage of the gross operating revenue of the hotel per annum;

2. Marketing fee: a fixed amount of pre-opening marketing fee, and a certain percentage of the gross operating revenue of the hotel per annum after the opening of the hotel;

3. Reservation services fee: a fixed amount per net booking;

4. Advertising coordination fund: a fixed amount per room per annum; and

5. Golden Circle Frequent Guest Programme fee: a certain percentage of the Golden Circle Frequent Guest consumption in the hotel.

The Hotel Management Agreements were entered into in the ordinary and usual course of business of the Company. The Directors (including the independent non-executive Directors) are of the view that the transactions under the Hotel Management Agreements are on normal commercial terms and in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and its subsidiaries as a whole.

The amounts of fees paid by the Group under the Hotel Management Agreements since 1998 were as follows:-

Financial Year	**Amount** *(HK$)*
1998	3,984,000
1999	5,834,000
2000	7,459,000
2001	9,416,000
2002	10,240,000
2003	9,753,000
2004	16,733,000
2005	18,423,000

The fees paid by the Group under the Hotel Management Agreements for the period from 31 March 2004 to 31 December 2004 and for the year ended 31 December 2005 amount to, respectively, HK$12,653,000 and HK$18,423,000, which are less than the 2.5% Threshold but exceed the 0.1% Threshold.

CONNECTED TRANSACTION IMPLICATIONS

BKCH is the owner of The Kerry Centre Hotel, Beijing located at No.1 Guanghua Road, Chaoyang District, Beijing, PRC. BKCH is owned as to 95% by KBGH and 5% by a third party which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). KBGH is owned as to 75% by the Group and 25% by the SA Group.

SLIM is an indirect wholly-owned subsidiary of SA. SA is an associate of KHL (the Company's substantial shareholder holding approximately 61.53% of the issued share capital of the Company) under the Listing Rules and is therefore a connected person of the Company. Under the Listing Rules, the provision of the Hotel Management Services is treated as continuing connected transactions of the Company.

ANNUAL CAP

Based on the terms of the Hotel Management Agreements and the Company's expectation on the occupancy of the hotel, and taking into account a buffer to cater for inflation and the exchange rate fluctuation of RMB, the Directors currently expect that during the remaining tenure of the Hotel Management Agreements, the annual aggregate fees payable by the Group pursuant to the Hotel Management Agreements for each of the financial years of the Company ending 31 December 2019 will not exceed HK$75,000,000 (the "**Cap**").

The Cap is less than the 2.5% Threshold but exceeds the 0.1% Threshold. If the Cap is exceeded during the remaining tenure of the Hotel Management Agreements, the Company will re-comply with the requirements set out in Rule 14A.35 of the Listing Rules, including seeking independent shareholders' approval if required by the Listing Rules. If independent shareholders' approval is required but cannot be obtained by the Company, BKCH will discuss at arm's length with SLIM with the view to agreeing an alternative approach. However, if the parties fail to reach an agreement, BKCH may need to terminate the Hotel Management Agreements unilaterally as a last resort.

If the parties decide to exercise the option to renew the Hotel Management Agreements for ten years, the Company will comply with the then requirements set out in the Listing Rules.

CONTRACT OF A DURATION LONGER THAN 3 YEARS

As required by Rule 14A.35(1) of the Listing Rules, the period for the Hotel Management Agreements must not exceed 3 years, except in special circumstances which are limited to cases where the nature of the transactions requires the contract to be of a duration longer than 3 years.

The Company considers that the nature of the transactions under the Hotel Management Agreements requires the contracts to be of a duration of longer than 3 years. Application was made to the Stock Exchange for a waiver from strict compliance of Rule 14A.35(1) of the Listing Rules.

An Independent Board Committee was formed for this purpose. The Company has also appointed Commerzbank as the independent financial adviser to advise the Independent Board Committee and to consider whether it is practicable to limit the Hotel Management Agreements to 3 years. The considerations of Commerzbank are summarised as follows:-

The IFA noted that The Kerry Centre Hotel, Beijing, has been managed by SLIM since its commencement of business in 1999 and has been managed by SLIM for more than seven years.

The IFA also noted that (i) the Group's strategy is to focus on the development of multi-purpose properties in PRC; (ii) SLIM has expertise in hotel management; and (iii) the continued improvement in operating profits and the occupancy rate at The Kerry Centre Hotel, Beijing.

The IFA has reviewed the Global Hotel Management Agreement Trends report (the "**Report**") jointly published by Jones Lang LaSalle Hotels and Baker & McKenzie in June 2005. Jones Lang LaSalle Hotels, being an integrated real estate services provider dedicated to the hotel and tourism sector, has conducted a survey to review 28 negotiated hotel management agreements covering 9,176 rooms across eight countries in Asia. Given the Report has selected a range of international hotel groups whose operations are spread out in different countries in the Asia Pacific region including PRC, the IFA is of the view that the results of the survey are representative of the hotel industry practice in PRC. Based on the Report, hotel management contracts range from 5 to 49 years with an average of 12 years. The IFA noted that the term of the Hotel Management Agreements for a period of 20 years falls within the range of 5 years to 49 years, and is above the average of 12 years. The IFA also noted that owing to the unique nature of hotel industry, hotel management contracts are invariably long term transactions. A contract of three years duration is not meaningful because each establishment is built and decorated to the specific standard and corporate identity of that hotel management operator. Replacing a hotel management operator will require the owner to re-decorate the establishment to the standards and specifications of the new hotel management operator. This is an expensive and time consuming exercise and may require the establishment to be closed for a period of time for refitting. Therefore, replacing a hotel management operator will have a significant cost and disruptive effect on the owner who will have to bear both the refitting/rebranding costs and potential loss of profit for a period of time.

The IFA also noted from the Report that hotel management operators tend to negotiate longer initial term for five-star hotels than three to four-star hotels in relation to maintaining long term relationship with well-known hotel management company. Given that The Kerry Centre Hotel, Beijing ranks as a five-star hotel by the Beijing Municipal Bureau of Tourism, the IFA is of the view that securing a reputable hotel management company to continue managing the hotel without disruption is in the interests of the Company and its shareholders.

Given the term between BKCH and SLIM (including the possible exercise of the extension option by both parties) of 20 years is within the range of contract duration of other similar hotel management contracts in the industry, the IFA confirms it to be normal business practice for the Company to enter into the Hotel Management Agreements and is in the interests of the Company and its shareholders as a whole to enter into the Hotel Management Agreements for such duration.

Having taken all the above factors into account, the IFA is of the view that the term of Hotel Management Agreements is on normal commercial terms, fair and reasonable, and in the interests of the Company and its shareholders as a whole.

After considering the advice of Commerzbank and taking into consideration the information and factors set out therein, the Independent Board Committee concurs that the nature of the transactions under the Hotel Management Agreements requires the contracts to be of a duration of longer than 3 years.

GENERAL

Under the Listing Rules, the provision of the Hotel Management Services is treated as continuing connected transactions of the Company and are subject to reporting, announcement and annual review requirements, but are exempt from shareholders' approval requirements of Chapter 14A of the Listing Rules. Details of the Hotel Management Agreements will be included in the Company's subsequent published annual reports and accounts for the financial years in which these transactions are subsisting.

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

BKCH is principally engaged in the ownership and operation of a hotel called The Kerry Centre Hotel, Beijing.

The principal activities of SLIM are investment holding and the provision of management, marketing, reservation, consultancy and project management services to hotels.

As at the date of this announcement, the executive Directors are Messrs. Ang Keng Lam, Wong Siu Kong, Ho Shut Kan, 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

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

"associate(s)"	has the meaning ascribed to it in the Listing Rules;
"BKCH"	Beijing Kerry Centre Hotel Co., Ltd., a sino-foreign equity joint venture company established in PRC and owned as to 95% by KBGH;
"Commerzbank" or "IFA"	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance and an authorised financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, and appointed as the independent financial adviser to the Independent Board Committee in relation to a continuing connected transaction relating to The Kerry Centre Hotel, Beijing;
"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;
"Directors"	directors of the Company;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	Hong Kong Special Administrative Region of PRC;
"Hotel Management Agreements"	hotel management, marketing and related agreements entered into between BKCH and SLIM on 30 June 1998 for the provision of Hotel Management Services to The Kerry Centre Hotel, Beijing;
"Hotel Management Services"	transactions involving the provision of hotel management, marketing, communication and reservation services by SLIM and its fellow subsidiaries to The Kerry Centre Hotel, Beijing;
"Independent Board Committee"	the independent board committee of the Board consisting of all the independent non-executive Directors, being Mr. LAU Ling Fai, Herald, who also presides as the chairman of the committee, Mr. William Winship FLANZ and Mr. Christopher Roger MOSS, O.B.E.;
"KBGH"	Kerry Beijing (Guang Hua) Ltd., a company incorporated in Samoa and is owned as to 75% by the Group and 25% by the SA Group;

"KHL"	Kerry Holdings Limited, a company incorporated in Hong Kong, which held approximately 61.53% and 42.93% of the issued share capital of the Company and SA, as disclosed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), respectively;
"Kuok Group"	companies which are owned or controlled by Mr. Kuok Hock Nien and/ or interests associated with him;
"PRC"	The People's Republic of China;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"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;
"SA Group"	SA and its subsidiaries;
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"SLIM"	Shangri-La International Hotel Management Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of SA;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder(s)"	has the meaning ascribed to it in the Listing Rules;
"0.1% Threshold"	the threshold set by Rule 14A.33(3) of the Listing Rules under which continuing connected transactions will be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules; and
"2.5% Threshold"	the threshold set by Rule 14A.34 of the Listing Rules under which continuing connected transactions will be subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

Hong Kong, 30 May 2006

* *For identification purpose only*

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