

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



(Incorporated in the British Virgin Islands and continued into Bermuda as an exempted company with limited liability)

Stock Code 636

## **ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

The Company entered into the Framework Agreement with KPL pursuant to which, (i) the Group agreed to provide services including delivery, local courier, freight, freight agency, insurance brokerage, and services relating to management and operation of warehouse facilities to the KPL Group, (ii) the KPL Group agreed to lease the Leased Premises to the Group, and (iii) the aggregate total amount payable per annum by the Group to the KPL Group for the Leased Premises and by the KPL Group to the Group for the services under the KPL Transactions shall not exceed the aggregate annual caps as provided in the Framework Agreement.

The Company proposes to set the aggregate annual caps for the KPL Transactions for the years ending 31 December 2014, 2015 and 2016.

KPL is a substantial shareholder and a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the KPL Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the annual caps of the transactions under the KPL Transactions are, on an annual basis, more than 0.1%, but all the applicable percentage ratios are less than 5% in accordance with the Listing Rules, the transactions contemplated under the KPL Transactions are subject to the reporting, annual review and announcement requirements and are exempt from the independent shareholders' approval requirements of the Listing Rules. Details of the transactions are set out below in this announcement.

## THE KPL TRANSACTIONS

In the ordinary and usual course of business, the Group has entered into and, expect to continue to enter into, transactions with the KPL Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those available to the Group from independent third parties, (i) for the Group to provide services including delivery, local courier, freight, freight agency, insurance brokerage, and 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) to the KPL Group, and (ii) for the KPL Group to lease the Leased Premises to the Group. The amounts paid by the Group to the KPL Group, and vice versa, were determined after arm's length negotiations between the parties with reference to prevailing market rates for similar types of premises, goods and services, taking into account considerations such as length of contract, package of services and overall customer relationship.

## THE FRAMEWORK AGREEMENT

The Company entered into the Framework Agreement with KPL on 28 July 2014 pursuant to which:

- (i) the Group agreed to provide services including delivery, local courier, freight, freight agency, insurance brokerage, and 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) to the KPL Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those available to the Group from independent third parties, under the KPL Transactions;
- (ii) the KPL Group agreed to lease the Leased Premises to the Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those available to the Group from independent third parties, under the KPL Transactions;
- (iii) the pricing of each KPL Transaction shall be determined by the parties at the time of the relevant agreement based on applicable market practice and value, with reference to any relevant rules and regulations being effective at the time;
- (iv) 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 agreement with reference to the weight and type of cargo, mode of shipment, freight rate of the carrier, type of storage space required and the service fee charged by independent third party logistics and freight services providers;
- (v) in relation to insurance brokerage services, the service fee shall be determined by the parties at the time of entry into the relevant agreement with reference to the insurance brokerage fee charged by independent third party insurance companies from time to time for comparable type of insurance;
- (vi) 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 agreement with reference to the type, size and location of the premises, the relevant party/customers' specific requirements and the service fees charged by independent third party warehouse services providers;

- (vii) in relation to the Leased Premises and such further premises (if any) that KPL Group will lease to the Group during the subsistence of the Framework Agreement, the rental shall be determined by the parties at the time of entry into the relevant agreements based on the prevailing market rent for comparable properties in the nearby area; and
- (viii) the aggregate total amount payable per annum by the Group to the KPL Group and by the KPL Group to the Group for the services provided under the KPL Transactions shall not exceed the annual caps during the term of the Framework Agreement.

The Framework Agreement will commence on 1 August 2014 and expire on 31 December 2016. The Framework Agreement can be extended for a further term of three years with the mutual written agreement of the Company and KPL.

It is envisaged that from time to time and as required, individual agreements will be entered into between the Group and KPL Group with respect to specific services covered by the Framework Agreement. Each agreement will set out the specific services requested by the relevant party. These agreements shall only contain provisions which are in all material respects consistent with the guidelines and terms and conditions set out above.

### HISTORICAL TRANSACTION AMOUNTS AND ANNUAL CAPS

- (i) The aggregate amounts paid by the Group under the KPL Transactions for the years ended 31 December 2011, 2012 and 2013 were approximately HK\$5.8 million, HK\$6.0 million and HK\$5.6 million, respectively; and
- (ii) the aggregate amounts received by the Group under the KPL Transactions for the years ended 31 December 2011, 2012 and 2013 were approximately HK\$1.4 million, HK\$6.5 million and HK\$9.6 million, respectively.

There was a significant increase in the amount received by the Group under the KPL Transactions from 2011 to 2012 mainly because the Group acquired 100% shares of Taishan Insurance Brokers Limited in mid-2012. Taishan Insurance Brokers Limited had been providing insurance brokerage services to the KPL Group prior to the acquisition, and therefore the insurance brokerage service fees received by Taishan Insurance Brokers Limited in the second half of 2012 were aggregated to the amount received by the Group under the KPL Transactions.

The Company proposes to set the aggregate annual caps for the KPL Transactions for the years ending 31 December 2014, 2015 and 2016. Please see below table which sets out the aggregate annual caps of the KPL Transactions:

	Year ending 31 December		
	2014	2015	2016
	(HK\$)		
Annual cap payable by the Group under the KPL Transactions .....	17.7 million	19.7 million	21.7 million
	Year ending 31 December		
	2014	2015	2016
	(HK\$)		
Annual cap receivable by the Group under the KPL Transactions .....	9.3 million	12.0 million	15.3 million

The aggregate annual caps for the years ending 31 December 2014, 2015 and 2016 are determined by reference to previous transactions conducted and the historical transaction amounts under the KPL Transactions, fees charged by independent third party providers, as well as factors including: (a) historical, current and projected rental for the Leased Premises and such further premises (if any) that KPL Group will lease to the Group during the subsistence of the 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 KPL 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 Group's and the KPL Group's businesses.

There is a significant increase in the annual cap for the year ending 31 December 2014 payable by the Group for the Leased Premises under the KPL Transactions because the Group has agreed to rent additional premises from KPL Group as warehouse and staff quarter in 2014. Our independent valuer has confirmed that the rental for the Leased Premises is at prevailing market rate. In addition, as its business continues to expand, the Group may, subject to the relevant annual caps, also enter into additional lease and service agreements with KPL Group from time to time.

## REASON FOR THE KPL TRANSACTIONS

The Group operates as a leading logistics service provider in Asia principally engaged in the integrated logistics and international freight forwarding businesses. As a logistics service provider, the Group has been providing logistics related services including insurance brokerage and related services to the KPL Group historically and will continue to do so in order to enhance the operational scale of the Group. In relation to the provision of services relating to management and operation of warehouse facilities, the Group can leverage on its existing set-up and resources to generate revenue. In addition, due to the continuing growth in the Group's operations in Hong Kong and the Mainland China, the Group requires to lease additional premises for its business operations.

The Board considers that due to the long-term relationship between the Group and KPL Group, it is beneficial to the Company to continue to enter into the KPL Transactions as these transactions have facilitated and will continue to facilitate the operation and growth of the Company's business.

The Board (including the independent non-executive Directors) also considers that the Framework Agreement and the KPL Transactions are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms, or on terms no less favourable than those available to the Group from independent third parties, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the annual caps for the transactions under the KPL Transactions are fair and reasonable. None of the Directors has a material interest in the KPL Transactions nor was required to abstain from voting on the board resolution approving the Framework Agreement, the KPL Transactions and the annual caps under the Bye-laws.

## LISTING RULES IMPLICATIONS

KPL is a substantial shareholder and a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the KPL Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the annual caps of the transactions under the KPL Transactions are, on an annual basis, more than 0.1%, but all the applicable percentage ratios are

less than 5% in accordance with the Listing Rules, the transactions contemplated under the KPL Transactions are subject to the reporting, annual review and announcement requirements and are exempt from the independent shareholders' approval requirements of the Listing Rules.

## INFORMATION ON THE COMPANY

The Company is a leading logistics service provider in Asia, in terms of revenue and gross floor area of warehouse managed, with extensive operations across Greater China and other countries in the region, as well as the latest Hong Kong-based international freight forwarding businesses and currently have more than 400 service locations in 36 countries and territories across Asia, Australia, Europe, North and South America, and West Africa.

## INFORMATION ON THE KPL GROUP

The KPL Group is principally engaged in property development, investment and management in Hong Kong, China and the Asia Pacific region and hotel ownership in Hong Kong and hotel ownership and operations in China.

## DEFINITIONS

“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company, as amended from time to time
“Company”	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
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Directors”	directors of the Company
“Framework Agreement”	the framework agreement entered into between KPL and the Company dated 28 July 2014
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“KPL”	Kerry Properties Limited, incorporated under the laws of Bermuda as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 683)
“KPL Group”	KPL and its subsidiaries
“KPL Transactions”	transactions entered into between the Group and the KPL Group on normal commercial terms, or on terms no less favourable than those

available to the Group from independent third parties, under which (i) the Group provides services including delivery, local courier, freight, freight agency, insurance brokerage, and services relating to management and operation of warehouse facilities to the KPL Group, and (ii) the KPL Group leases the Leased Premises to the Group

“Leased Premises”	the premises owned by the KPL Group and leased to the Group pursuant to the Framework Agreement, which include (i) units at Phase I, Kerry Everbright City, 218 Tianmu Road West, Shanghai, China for office use, (ii) units at Kerry D.G. Warehouse (Kowloon Bay), 7 Kai Hing Road, Kowloon Bay, Hong Kong for logistics related services, (iii) unit at Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Hong Kong for logistics related services, and (iv) unit at Tavistock, 10 Tregunter Path, Hong Kong for staff quarter
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules

By Order of the Board  
**Kerry Logistics Network Limited**  
**LEE Pui Nee**  
*Company Secretary*

Hong Kong, 28 July 2014

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

*Executive Directors:*

*Mr YEO George Yong-boon, Mr MA Wing Kai William, Mr ERNI Edwardo and Mr KUOK Khon Hua*

*Non-executive Director:*

*Mr QIAN Shaohua*

*Independent Non-executive Directors:*

*Ms WONG Yu Pok Marina, Mr WAN Kam To and Mr YEO Philip Liat Kok*

*This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.kerrylogistics.com).*