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ALLIED GROUP LIMITED

(聯合集團有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 373)

CONTINUING TRANSACTIONS BECOMING CONTINUING CONNECTED TRANSACTIONS

SERVICES AGREEMENT

On 27 March 2017, San Pack entered into the Services Agreement with San Tai pursuant to which San Tai shall provide Logistics and Warehouse Services to San Pack.

TENANCY AGREEMENTS

On 12 July 2016, San Pack, a non-wholly owned subsidiary of the Company, entered into the Tenancy Agreement I with San Tai in relation to the leasing of certain industrial premises.

On 4 November 2016, San Pack entered into the Tenancy Agreement II with China Pacific in relation to the leasing of certain industrial premises.

LISTING RULES IMPLICATIONS

On 23 December 2016, Mr. Lo, who is a Director of the Company, through a company controlled by him, acquired 65% of the shareholding interests in a target company, whereas such company indirectly holds (i) the entire shareholding interest in China Pacific; and (ii) 68% of shareholding interest in San Tai. Following such acquisition, Mr. Lo can exercise more than 50% of the voting power at the general meetings of China Pacific and San Tai (through his indirect shareholding in China Pacific). San Tai and China Pacific became connected persons of the Company within the meaning of the Listing Rules. As a result, the Transactions constitute continuing connected transactions of the Company.

As the applicable Percentage Ratio(s) for the Company in respect of aggregate amounts payable under the Transactions for each of the two financial years ending 31 December 2018 and the six months ended 30 June 2019 exceed 0.1% but are less than 5%, the Transactions are only subject to the reporting, announcement and annual review requirements but exempt from the circular and the shareholders' approval requirements under Chapter 14A of the Listing Rules for each of the two financial years ending 31 December 2018 and the six months ended 30 June 2019.

SERVICES AGREEMENT

On 27 March 2017, San Pack and San Tai entered into the Services Agreement pursuant to which San Tai shall provide Logistics and Warehouse Services for a term of 27 months from 1 April 2017 to 30 June 2019 (both days inclusive) at a service fee of HK\$36,000 per month.

The above amount of services fee under the Services Agreement was arrived at after arm's length negotiation between San Pack and San Tai with reference to the prevailing market conditions and costs of providing such services.

TENANCY AGREEMENTS

Having reviewed all transactions between San Tai, China Pacific and the Group, it was noted that the Group had entered into the Tenancy Agreements with San Tai and China Pacific prior to them becoming connected persons of the Company. The particulars of the Tenancy Agreements are set out as follows:-

Tenancy Agreement I

On 12 July 2016, San Pack, a non-wholly owned subsidiary of the Company, entered into the Tenancy Agreement I with San Tai in relation to the leasing of certain industrial premises and parking spaces at Allied Cargo Centre for a term of 3 years from 1 July 2016 to 30 June 2019 (both days inclusive). The major terms of Tenancy Agreement I are detailed below:

Date : 12 July 2016

Landlord : San Pack

Tenant : San Tai

Premises	:	The whole of 7th to 12th and 20th Floors together with 3 lorry and 3 private car parking spaces, Allied Cargo Centre
Usage	:	Warehouse and/or industrial use, save that the 3 lorry and 3 private car parking spaces shall be used for motor vehicles parking only
Term of the lease	:	1 July 2016 to 30 June 2019 (both days inclusive)
Monthly rental	:	7th to 12th and 20th floor: HK\$1,156,960 3 lorry and 3 private car parking spaces: HK\$10,800 (inclusive of management fees but exclusive of rates)
Rent-free period	:	the 12th, 24th and 36th month within the existing term of the tenancy in respect of the 7th to 12th and 20th floor

Tenancy Agreement II

On 4 November 2016, San Pack entered into the Tenancy Agreement II with China Pacific in relation to the leasing of certain industrial premises at Allied Cargo Centre for a term of 3 years from 1 April 2016 to 31 March 2019 (both days inclusive). The major terms of Tenancy Agreement II are detailed below:

Date	:	4 November 2016
Landlord	:	San Pack
Tenant	:	China Pacific
Premises	:	25th Floor, Allied Cargo Centre
Usage	:	Commercial purposes for cargo storage only
Term of the lease	:	1 April 2016 to 31 March 2019 (both days inclusive)
Monthly rental	:	HK\$105,144 (including of management fee but exclusive of rates)

HISTORICAL AMOUNTS AND ANNUAL CAPS

Set out below are the historical amounts for the period from 1 April 2016 to 31 December 2016 and the proposed annual caps for each of the two years ending 31 December 2018 and the six months ended 30 June 2019:

	Historical amount for the period from 1 April 2016 to 31 December 2016 (HK\$)	Annual cap for the year ending 31 December 2017 (HK\$)	Annual cap for the year ending 31 December 2018 (HK\$)	Annual cap for the year ending six months ended 30 June 2019 (HK\$)
Services Agreement (from 1 April 2017 to 30 June 2019)	–	324,000	432,000	216,000
Tenancy Agreement I (from 1 July 2016 to 30 June 2019)	6,428,080	12,856,160	12,856,160	6,428,080
Tenancy Agreement II (from 1 April 2016 to 31 March 2019)	946,296	1,261,728	1,261,728	315,432
Total	<u>7,374,376</u>	<u>14,441,888</u>	<u>14,549,888</u>	<u>6,959,512</u>

The above annual caps are calculated with reference to the agreed services fee payable by the Group to San Tai under the Services Agreement for the corresponding contract periods from 1 April 2017 to 30 June 2019; and the agreed rental payable by San Tai or China Pacific (as the case may be) to the Group under the Tenancy Agreements for the tenancy periods expiring on 30 June 2019.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

San Tai is a well-established logistics service provider and has been a long term tenant of Allied Cargo Centre for over 20 years, and San Pack needs to engage an experienced logistics service provider to enhance the storage and logistics service of the warehouse owned by it. Therefore, the appointment of San Tai as service provider for the Logistics and Warehouse Services will provide value-added service for the storage facilities of the warehouse owned by San Pack and the efficiency and effectiveness for the usage of the storage facilities shall be enhanced.

It is also noted that the above amounts of monthly rental under the Tenancy Agreement I and Tenancy Agreement II were arrived at after arm's length negotiation between San Pack and San Tai/China Pacific with reference to the prevailing market conditions and the rental levels of similar properties in the vicinity of the leased premises. All terms and conditions were concluded prior to San Tai/China Pacific became connected persons of the Company within the meaning of the Listing Rules.

The Group engages in, among others, the business of property investment and owns industrial premises in Hong Kong and therefore leasing out certain of them under the Tenancy Agreements provides the Group with stable revenue.

Based on the information provided by San Pack, the Directors (including the independent non-executive Directors) are of the view that the transactions under the Tenancy Agreements and the Services Agreement were in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms thereunder as well as the annual caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

On 23 December 2016, Mr. Lo, who is a Director of the Company, through a company controlled by him, acquired 65% of the shareholding interests in a target company, whereas such company indirectly holds (i) the entire shareholding interest in China Pacific; and (ii) 68% of shareholding interest in San Tai. Following such acquisition, Mr. Lo can exercise more than 50% of the voting power at the general meetings of China Pacific and San Tai (through his indirect shareholding in China Pacific). San Tai and China Pacific became connected persons of the Company within the meaning of the Listing Rules. As a result, the Transactions constitute continuing connected transactions of the Company.

As the applicable Percentage Ratio(s) for the Company in respect of aggregate amounts payable under the Transactions for each of the two financial years ending 31 December 2018 and the six months ended 30 June 2019 exceed 0.1% but are less than 5%, the Transactions are only subject to the reporting, announcement and annual review requirements but exempt from the circular and the shareholders' approval requirements under Chapter 14A of the Listing Rules for each of the two financial years ending 31 December 2018 and the six months ended 30 June 2019.

As Mr. Lo is interested in the continuing connected transactions in respect of the Transactions, he has abstained from voting on the relevant resolutions of the Company.

Apart from the above, none of the Directors has any material interest in the Transactions and is required to abstain from voting on the board resolutions approving the Transactions.

INFORMATION ABOUT THE COMPANY, SAN PACK, SAN TAI AND CHINA PACIFIC

The Company

The Company is incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board.

The principal business activity of the Company is investment holding. The principal business activities of its major subsidiaries are property investment and development, hospitality related activities, elderly care services, the provision of finance and investments in listed and unlisted securities.

San Pack

San Pack is a company incorporated in Hong Kong with limited liability. The principal business activity of San Pack is property investment.

San Tai

San Tai is a company incorporated in Hong Kong with limited liability. The principal business activities of San Tai are provision of storage, devanning and freight forwarder services.

China Pacific

China Pacific is a company incorporated in Hong Kong with limited liability. The principal business activities of China Pacific are trading of confectionary products and investment holding.

DEFINITIONS

“Board”	the board of Directors
“China Pacific”	China Pacific Group Limited, a company incorporated in Hong Kong with limited liability
“Company”	Allied Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board (Stock Code: 373)

“connected person(s)”	having the meaning ascribed to it under the Listing Rules
“Directors”	the 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 the People’s Republic of China
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Logistics and Warehouse Services”	the provision of (i) logistics services in Hong Kong; and (ii) warehouse management services at San Pack’s warehouse at Allied Cargo Centre by San Tai to San Pack as stipulated in the Services Agreement
“Main Board”	Main Board of the Stock Exchange (excludes the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mr. Lo”	Mr. Edwin Lo King Yau, a Director of the Company
“Percentage Ratio(s)”	percentage ratio(s) as set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction

“San Pack”	San Pack Properties Limited, a company incorporated in Hong Kong with limited liability, is a non-wholly owned subsidiary of the Company, through Allied Properties (H.K.) Limited, a listed subsidiary of the Company
“San Tai”	San Tai Distribution Company Limited, a company incorporated in Hong Kong with limited liability
“Services Agreement”	the agreement dated 27 March 2017 entered into between San Pack and San Tai in relation to the Logistics and Warehouse Services
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement I”	a leasing agreement dated 12 July 2016 entered into between San Pack and San Tai (as supplemented by its side letter dated 26 August 2016), as described in the section headed “Tenancy Agreements” in this announcement
“Tenancy Agreement II”	a leasing agreement dated 4 November 2016 entered into between San Pack and China Pacific, as described in the section headed “Tenancy Agreements” in this announcement
“Tenancy Agreements”	Tenancy Agreement I and Tenancy Agreement II
“Transactions”	the transactions contemplated under Tenancy Agreement I, Tenancy Agreement II and the Services Agreement
“%”	per cent

On behalf of the Board
Allied Group Limited
Arthur George Dew
Chairman

Hong Kong, 27 March 2017

As at the date of this announcement, the Board comprises Messrs. Lee Seng Hui (Chief Executive), Edwin Lo King Yau and Mak Pak Hung being the Executive Directors; Mr. Arthur George Dew (Chairman) and Ms. Lee Su Hwei being the Non-Executive Directors; and Mr. David Craig Bartlett, Mr. Alan Stephen Jones and Ms. Lisa Yang Lai Sum being the Independent Non-Executive Directors.