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If you have sold or transferred all your shares in New World Department Store China Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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新世界百貨中國有限公司

New World Department Store China Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 825)

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF THE MASTER LEASING AGREEMENT AND NOTICE OF EGM

Independent Financial Adviser to the Independent Board Committee
and Independent Shareholders

VEDA | CAPITAL
智略資本

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Independent Board Committee containing its recommendations in respect of the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 26 of this circular.

A notice convening the EGM to be held at Meeting Room N201, Level 2, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong (Expo Drive Entrance) on Thursday, 18 June 2020 at 12:15 p.m. is set out on pages 34 to 35 of this circular. A proxy form for use by the Shareholders in the EGM is enclosed. If you are not able to attend the EGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer agent of the Company in Hong Kong at Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of this circular for the measures being taken to prevent and control the spread of the COVID-19 at the EGM, including but not limited to:

- (a) compulsory body temperature check;
- (b) compulsory wearing of surgical face mask;
- (c) maintaining a safe distance between seats;
- (d) no provision of refreshments and beverages; and
- (e) no distribution of coupons for subsequent consumption.

Any person who does not comply with the precautionary measures will be denied entry into or be required to leave the EGM venue.

In light of the continuing risks posed by the COVID-19 and as part of the Company's control measures to safeguard the health and safety of the Shareholders, the Company strongly encourages the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

Hong Kong, 1 June 2020

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PRECAUTIONARY MEASURES FOR THE EGM

The health of the Shareholders, staff and stakeholders of the Company is of paramount importance to us. To prevent and control the spread of the COVID-19, the Company will implement the following at the EGM as part of the control measures to safeguard the health and safety of our attending Shareholders, staff and stakeholders of the Company:

- (i) compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person who has a body temperature of over 37.5 degree Celsius or is subject to the mandatory quarantine order imposed by the Hong Kong government will be denied entry into or be required to leave the EGM venue;
- (ii) each attendee must wear a surgical face mask throughout the EGM and inside the EGM venue. **Please note that no masks will be provided at the EGM venue and attendee should bring and wear their own masks;**
- (iii) the Company will maintain a safe distance between seats;
- (iv) no refreshments and beverages will be served; and
- (v) no distribution of coupons for subsequent consumption.

In addition, the Company would like to remind all attending Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. The Company strongly encourages the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return the proxy forms to the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

In the event of any regulation imposed by the Hong Kong government due to COVID-19 requiring the change of the date or place of the EGM, the Company will publish an announcement on the websites of both the Company (www.nwds.com.hk) and the HKEXnews (www.hkexnews.hk) to notify the Shareholders that the EGM has been adjourned (however, a failure to publish such a notice shall not affect the adjournment of such meeting).

The Company will publish a further announcement on its corporate website (www.nwds.com.hk) and the HKEXnews' website (www.hkexnews.hk) to notify the Shareholders of the date, time and location of the adjourned EGM.

DEFINITIONS

Unless the context otherwise requires, capitalized terms used in this circular shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	New World Department Store China Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, and is a subsidiary of NWD as at the Latest Practicable Date
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Definitive Leasing Agreement(s)”	definitive agreement(s) which may be entered into between any member(s) of the Group and any member(s) of the NWD Group from time to time in relation to any of the Leasing Transactions at any time during the term of the Master Leasing Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Meeting Room N201, Level 2, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong (Expo Drive Entrance) on Thursday, 18 June 2020 at 12:15 p.m. for the purpose of considering and, if thought fit, approving the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps
“Fixed Lease Payment”	a fixed dollar amount of periodic rental fee in respect of a Definitive Leasing Agreement
“Group”	the Company and its subsidiaries from time to time
“HKFRS 16”	the Hong Kong Financial Reporting Standard 16 issued by the Hong Kong Institute of Certified Public Accountants, which sets out the principles for the recognition, measurement, presentation and disclosure of leases
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai
“Independent Financial Adviser” or “Veda Capital”	Veda Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	the Shareholders other than NWD and its associates
“Latest Practicable Date”	27 May 2020, being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information contained herein
“Leasing Renewal Date”	1 July 2020, which is conditional upon the renewal of the Master Leasing Agreement becoming unconditional as set out in the sub-paragraph headed “Conditionality” under the paragraph headed “Renewal of the Master Leasing Agreement” in this circular
“Leasing Transactions”	all existing and future transactions between members of the Group and members of the NWD Group regarding the leasing of premises by members of the Group from members of the NWD Group, and vice versa, as contemplated under the Master Leasing Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Leasing Agreement”	the agreement in relation to the Leasing Transactions entered into between the Company and NWD on 11 April 2014
“New Leasing Annual Caps”	the annual cap amounts payable by the Group to the NWD Group, and vice versa, in respect of the Leasing Transactions for each of the three financial years ending 30 June 2023

DEFINITIONS

“NWD”	New World Development Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 0017), and is the holding company of the Company as at the Latest Practicable Date
“NWD Group”	NWD, its subsidiaries (other than the Group) and jointly-controlled entities from time to time
“PRC”	the People’s Republic of China, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stores”	the department stores owned by the Group from time to time
“subsidiary”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Variable Lease Payment”	a variable amount of payment linked to revenue generated from the leased property(ies) in respect of a Definitive Leasing Agreement
“%”	per cent

LETTER FROM THE BOARD



新世界百貨中國有限公司
New World Department Store China Limited
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 825)

Non-executive Director:

Dr. Cheng Kar-shun, Henry

Executive Directors:

Dr. Cheng Chi-kong, Adrian

Mr. Cheung Fai-yet, Philip

Independent non-executive Directors:

Mr. Cheong Ying-chew, Henry

Mr. Chan Yiu-tong, Ivan

Mr. Tong Hang-chan, Peter

Mr. Yu Chun-fai

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

Principal place of business in

Hong Kong:

7th Floor, 88 Hing Fat Street

Causeway Bay, Hong Kong

1 June 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
RENEWAL OF THE MASTER LEASING AGREEMENT**

1. INTRODUCTION

The Board refers to the announcement of the Company dated 27 April 2020 in relation to, among other things, the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps.

The purposes of this circular are, among other things: (i) to provide you with further details of the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the matters set out in (i); (iii) to set out the recommendation and opinion of the Independent Board Committee to the Independent Shareholders after taking into consideration the advice of the Independent Financial Adviser in relation to the matters set out in (i); and (iv) to give you the notice of the EGM at which the ordinary resolution will be proposed to approve the matters set out in (i).

LETTER FROM THE BOARD

2. RENEWAL OF THE MASTER LEASING AGREEMENT

Background

Members of the Group and members of the NWD Group had in the past entered into certain leasing agreements for the leasing of premises by the relevant members of the Group from the relevant members of the NWD Group, and vice versa, in accordance with the Master Leasing Agreement and certain of the leasing agreements have not expired as at the Leasing Renewal Date. The Group and the NWD Group wish to continue the leasing agreements and may from time to time enter into new leasing agreements for the leasing of premises by the Group from the NWD Group, and vice versa. The Master Leasing Agreement will expire on 30 June 2020 and will be automatically renewed for a successive period of three years thereafter subject to compliance with certain conditions, including the Listing Rules.

Date

11 April 2014

Parties

- (1) the Company; and
- (2) NWD

General terms for the Leasing Transactions

The relevant members of the Group and the relevant members of the NWD Group may from time to time enter into Definitive Leasing Agreement(s) in relation to any Leasing Transactions upon, and subject to, the terms and conditions in compliance with the Master Leasing Agreement as may be agreed between the relevant members of the Group and the relevant members of the NWD Group. All existing agreements between the relevant members of the Group and the relevant members of the NWD Group in respect of the Leasing Transactions (to the extent which covers the Leasing Transactions after the Leasing Renewal Date) will be treated as Definitive Leasing Agreements made pursuant to the Master Leasing Agreement as from the Leasing Renewal Date.

With effect from the Leasing Renewal Date, the Leasing Transactions shall be conducted:

- (a) in the usual and ordinary course of business of the Company and NWD;
- (b) on normal commercial terms; and

LETTER FROM THE BOARD

- (c) in compliance with all applicable provisions of the Listing Rules (including the New Leasing Annual Caps), the applicable laws, the Master Leasing Agreement and the relevant Definitive Leasing Agreement.

The consideration for each Definitive Leasing Agreement will be determined in the following manner:

- (a) for lessor, the lessor will provide the lessee with a quote with reference to at least two market comparative quote(s) for similar property(ies) (with comparable conditions including but not limited to location, usable space, available facilities, quality and rental period) and/or two comparable transactions with independent third parties; and
- (b) for lessee, the lessee will obtain at least two market comparative quote(s) for similar property(ies) (with comparable conditions including but not limited to location, usable space, available facilities, quality and rental period) and/or review two comparable transactions with independent third parties before deciding whether to accept the quote and proceed further.

Conditionality

The renewal of the Master Leasing Agreement is conditional upon the approval by the Independent Shareholders of the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps at the EGM.

Duration

The Master Leasing Agreement shall continue to be effective up to and including 30 June 2023. Subject to compliance with the then relevant requirements of the rules of any stock exchange to which either party to the Master Leasing Agreement is subject to, including, but not limited to, the Listing Rules or, alternatively, any waiver obtained from strict compliance with such requirements, upon expiration of the initial term or subsequent renewal term, the Master Leasing Agreement will be automatically renewed for a successive period of three years thereafter (or such other period permitted under the Listing Rules), unless terminated earlier in accordance with the Master Leasing Agreement.

Historical figures

The aggregate transaction amounts in relation to the Leasing Transactions for the Group as lessee for each of the two financial years ended 30 June 2019 and the six months ended 31 December 2019 were approximately RMB242,489,000, RMB235,559,000 and RMB115,915,000, respectively.

LETTER FROM THE BOARD

The aggregate transaction amounts in relation to the Leasing Transactions for the Group as lessor for each of the two financial years ended 30 June 2019 and the six months ended 31 December 2019 were approximately RMB155,000, RMB163,000 and RMB82,000, respectively.

The New Leasing Annual Caps

The rental fees payable by the Group as lessee under the Leasing Transactions comprises Fixed Leased Payments and Variable Lease Payments.

In line with the Group's expansion strategies of "multiple presences within a single city" and "radiation city" while focusing on the development of the Greater Beijing, Greater Shanghai, Greater South Western markets, the Company expects that the Group will in the next three years, under favourable market conditions and with the appropriate opportunity, enter into a Definitive Leasing Agreement to open one additional Store each year, on terms and conditions similar to the existing Definitive Leasing Agreements. Having regard to the year-on-year growth rates for the gross domestic product of the PRC for each of the last four years as published by the National Bureau of Statistics of the PRC (which was consistently not less than 6%), and the expectation that the PRC economy will gradually recover from the impact of the COVID-19 pandemic and grow steadily in the next three years, the Group estimates that the prevailing market rates of comparable property(ies) will increase gradually by approximately 5% per year over the next three years, and the rental fees payable by the Group under the new Definitive Leasing Agreement(s) are expected to follow the same trend.

Having considered the historical transaction amounts and taking into account the factors mentioned above, the proposed annual caps for the Fixed Lease Payments and the Variable Lease Payments payable by the Group as lessee under the Leasing Transactions for each of the three financial years ending 30 June 2023 are set out below:

	For the year ending 30 June		
	2021	2022	2023
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Fixed Lease Payments	406,000,000	428,000,000	450,000,000
Variable Lease Payments	300,000,000	330,000,000	360,000,000

Pursuant to HKFRS 16, the Fixed Lease Payments payable by the Group as lessee under the Leasing Transactions will be recognised as right-of-use assets. The proposed annual caps for the Fixed Lease Payments are set on the total value of the right-of-use assets relating to the Definitive Leasing Agreements expected to be entered into by the Group in each year, which are calculated with reference to the aggregate of the total Fixed Lease Payments under the full lease term of each Definitive Leasing Agreement newly entered into each year, discounted by the Company's incremental borrowing rate.

LETTER FROM THE BOARD

Pursuant to HKFRS 16, the Variable Lease Payments payable by the Group as lessee under the Leasing Transactions will be recognised as expenses incurred by the Group. The proposed annual caps for the Variable Lease Payments are set on the total Variable Lease Payments expected to be payable by the Group each year under the Leasing Transactions, with reference to the projected revenue generated from the leased property(ies) under the Leasing Transactions and the terms of the relevant Definitive Leasing Agreement.

Given that the Leasing Transactions for the Group as lessor for each of the two financial years ended 30 June 2019 and the six months ended 31 December 2019 constituted de minimis transactions for the purpose of Chapter 14A of the Listing Rules, the Group has only provided the proposed annual caps for the transaction amounts payable by the Group as lessee under the Leasing Transactions for each of the three financial years ending 30 June 2023 as set out above. The Company will closely monitor the aggregate transaction amounts in relation to the Leasing Transactions for the Group as lessor for each of the three financial years ending 30 June 2023 to ensure compliance with the reporting, announcement, independent shareholders' approval and circular requirements, if applicable, under Chapter 14A of the Listing Rules.

Reasons for and benefits of the renewal of the Master Leasing Agreement

Given that the relevant Stores have been operating at the premises owned by the NWD Group (save and except for certain of the premises which are for use as the office and car parks of the Group) for a number of years and the cost to be incurred and the adverse impact on the operation of the Stores in the event of their relocation will be substantial, the Directors believe that maintaining the lease agreements with the NWD Group will ensure the Group's stability in using the relevant premises. The Directors also believe that it is in the interests of the Company to renew the Master Leasing Agreement so that the Group may regulate the existing and future leasing agreements with the NWD Group under a common framework agreement.

The Directors consider that the renewal of the Master Leasing Agreement have been negotiated on an arm's length basis, are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of the business of the Group, and are in the interests of the Group and the Shareholders as a whole, and that the New Leasing Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

3. INFORMATION RELATING TO THE GROUP AND THE NWD GROUP

The Group is principally engaged in the business of operating department store and other related business and property investment operations in the PRC.

To the best knowledge of the Directors, the NWD Group is principally engaged in property development, property investment and investment in and/or operation of roads, commercial aircraft leasing, construction, insurance, hotels and other strategic businesses.

LETTER FROM THE BOARD

4. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, NWD is a substantial shareholder of the Company and hence a connected person of the Company. The Leasing Transactions therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest of the amounts and all the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) of the New Leasing Annual Caps exceeds HK\$10,000,000 and are more than 5%, the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for the Company.

The Independent Board Committee has been established to consider the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, and to advise the Independent Shareholders as to whether the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps are in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

5. APPROVAL BY THE DIRECTORS

None of the Directors has a material interest in the renewal of the Master Leasing Agreement. Dr. Cheng Kar-shun, Henry and Dr. Cheng Chi-kong, Adrian are common directors of the Company and NWD. Other than Dr. Cheng Kar-shun, Henry and Dr. Cheng Chi-kong, Adrian, none of the Directors is required to abstain from voting on the relevant board resolutions. Dr. Cheng Kar-shun, Henry and Dr. Cheng Chi-kong, Adrian who were present at the meeting of the board of the Company have abstained from voting on the relevant board resolutions.

6. EXTRAORDINARY GENERAL MEETING

Set out on pages 34 to 35 of this circular is the notice convening the EGM at which an ordinary resolution will be proposed to approve the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps. At the EGM, the votes of the Independent Shareholders in relation to the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps will be taken by poll.

In view of the interests of NWD in the Leasing Transactions, NWD and its associates will abstain from voting in respect of the ordinary resolution to be proposed at the EGM to approve the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps.

LETTER FROM THE BOARD

A proxy form for use at the EGM is enclosed herein. If you are not able to attend the EGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer agent of the Company in Hong Kong at Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (or any adjournment thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish. In the event of you attending and voting at the EGM (or any adjournment thereof) in person, the proxy form will be deemed to be revoked. An announcement of the poll results of the EGM will be published by the Company.

The register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the EGM, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 June 2020.

7. RECOMMENDATIONS

Your attention is drawn to:

- (i) the letter from the Independent Board Committee set out on pages 13 to 14 of this circular which contains its recommendation to the Independent Shareholders; and
- (ii) the letter from the Independent Financial Adviser set out on pages 15 to 26 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders.

The Independent Board Committee, having considered the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, and taken into account the advice of the Independent Financial Adviser, considers that the renewal of the Master Leasing Agreement is in the ordinary and usual course of business of the Group, on normal commercial terms or better, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps.

Taking into account the letter from the Independent Board Committee and all other factors stated above as a whole, the Directors are of the view that the renewal of the Master Leasing Agreement is in the ordinary and usual course of business of the Group, on normal commercial terms or better, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors also

LETTER FROM THE BOARD

recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps.

8. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of
New World Department Store China Limited
Cheng Kar-shun, Henry
Chairman



新世界百貨中國有限公司

New World Department Store China Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 825)

1 June 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 1 June 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps is in the ordinary and usual course of business of the Group, on normal commercial terms or better, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Veda Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, and whether the renewal of the Master Leasing Agreement, the Leasing Transactions, the New Leasing Annual Caps are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter set out on pages 15 to 26 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 12 of the Circular and the general information set out in the Appendix to the Circular. Having considered the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, and taken into account the advice of the Independent Financial Adviser, we consider that the renewal of the Master Leasing Agreement is in the ordinary and usual course of business of the Group, on normal commercial terms or better, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps.

Yours faithfully,

Cheong Ying-chew, Henry

Chan Yiu-tong, Ivan

Tong Hang-chan, Peter

Yu Chun-fai

Independent Board Committee

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, which has been prepared for the purpose of inclusion in the Circular.

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LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established to consider the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, and to advise the Independent Shareholders as to whether the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps are in the interests of the Company and the Shareholders as a whole. We, Veda Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for this appointment as the Independent Financial Adviser in respect of the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, there were no other engagements between us and the Group in the past two years. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company, for which they are solely and wholly responsible, were true at the time when they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to believe that any information and representations relied on by us in forming our opinion is

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untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the management of the Company.

This letter is issued to Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps and in giving our recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration of the following principal factors and reasons:

1. Information on the Group, NWD and its subsidiaries

The Group is principally engaged in the business of operating department stores and other related business and property investment operations in the PRC.

To the best knowledge of the Directors, the NWD Group is principally engaged in property development, property investment and investment in and/or operation of roads, commercial aircraft leasing, construction, insurance, hotels and other strategic businesses.

2. Background and reasons for the renewal of the Master Leasing Agreement

Members of the Group and members of the NWD Group had in the past entered into certain leasing agreements for the leasing of premises by the relevant members of the Group from the relevant members of the NWD Group, and vice versa, in accordance with the Master Leasing Agreement and certain of the leasing agreements have not expired as at the Leasing Renewal Date. The Group and the NWD Group wish to continue the leasing agreements and may from time to time enter into new leasing agreements for the leasing of premises by the Group from the NWD Group, and vice versa. The Master Leasing Agreement will expire on 30 June 2020 and will be automatically renewed for a successive period of three years thereafter subject to compliance with certain conditions, including the Listing Rules.

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Given that the relevant Stores have been operating at the premises owned by the NWD Group (save and except for certain of the premises which are for use as the office and car-parks of the Group) for a number of years and the cost to be incurred and the adverse impact on the operation of the Stores in the event of their relocation will be substantial, the Directors believe that maintaining the leasing agreements with the NWD Group will ensure the Group's stability in using the relevant premises. The Directors also believe that it is in the interests of the Company to renew the Master Leasing Agreement so that the Group may regulate the existing and future leasing agreements with the NWD Group under a common framework agreement.

Having considered (i) the principal activities of the Group and the NWD Group; (ii) the long-built reliable business partnership between the Group and the NWD Group; (iii) certain of the leasing agreements under the Master Leasing Agreement have not expired and the Leasing Transactions are expected to continue in the future; and (iv) the additional costs and adverse impact on the operation of the Stores in the event of their relocation, we are in the view that the renewal of the Master Leasing Agreement is in the ordinary course of business and we concur with the view of the Directors that the renewal of the Master Leasing Agreement is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Master Leasing Agreement

Date

11 April 2014

Parties

- A. the Company; and
- B. NWD

General terms for the Leasing Transactions

The relevant members of the Group and the relevant members of the NWD Group may from time to time enter into Definitive Leasing Agreement(s) in relation to any Leasing Transactions upon, and subject to, the terms and conditions in compliance with the Master Leasing Agreement as may be agreed between the relevant members of the Group and the relevant members of the NWD Group. All existing agreements between the relevant members of the Group and the relevant members of the NWD Group in respect of the Leasing Transactions (to the extent which covers the Leasing Transactions after the Leasing Renewal Date) will be treated as Definitive Leasing Agreements made pursuant to the Master Leasing Agreement as from the Leasing Renewal Date.

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With effect from the Leasing Renewal Date, the Leasing Transactions shall be conducted (a) in the usual and ordinary course of business of the Company and NWD; (b) on normal commercial terms; and (c) in compliance with all applicable provisions of Listing Rules (including the New Leasing Annual Caps), the applicable laws, the Master Leasing Agreement and the relevant Definitive Leasing Agreement.

The consideration for each Definitive Leasing Agreement will be determined in the following manner (collectively, the “**Quotation Procedures for Leasing**”):

- (a) for lessor, the lessor will provide the lessee with a quote with reference to at least two market comparative quote(s) for similar property(ies) (with comparable conditions including but not limited to location, usable space, available facilities, quality and rental period) and/or two comparable transactions with independent third parties; and
- (b) for lessee, the lessee will obtain at least two market comparative quote(s) for similar property(ies) (with comparable conditions including but not limited to location, usable space, available facilities, quality and rental period) and/or review two comparable transactions with independent third parties before deciding whether to accept the quote and proceed further.

Conditionality and duration

The renewal of the Master Leasing Agreement is conditional upon the approval by the Independent Shareholders at the EGM. The Master Leasing Agreement shall continue to be effective up to and including 30 June 2023. Subject to compliance with the then relevant requirements of the rules of any stock exchange to which either party to the Master Leasing Agreement is subject to, including but not limited to, the Listing Rules or, alternatively, any waiver obtained from strict compliance with such requirements, upon expiration of the initial term or subsequent renewal term, the Master Leasing Agreement will be automatically renewed for a successive period of three years thereafter (or such other period permitted under the Listing Rules), unless terminated earlier in accordance with the Master Leasing Agreement.

In assessing the fairness and reasonableness of the terms of the Master Leasing Agreement, we have obtained and compared two sets of leasing agreements samples (the “**Lessee Samples**”) that contain a total of ten individual leasing agreements entered into by the Group as the lessee with the NWD Group and other landlords who are independent third parties of the Company as the lessor of which the relevant premises are comparable in location (i.e. the respective premises are situated in the same-tier or nearby cities), usable size and available facilities. Based on (i) the leasing samples with the NWD Group among the Lessee Samples were those with the highest annual revenue contributions among the Stores leased from the NWD Group for the financial year ended 30 June 2019; and (ii) the leasing samples with other independent landlords that were used to compared against with are comparable in terms of

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location, usable size and available facilities, we considered the above sample selection to be fair and reasonable. From the Lessee Samples, we noted that the terms offered by the NWD Group are not less favorable than those offered by other independent landlords.

We have also interviewed with the management of the Group in relation to the consideration for the Definitive Leasing Agreement and we have been briefed about the procedures arriving at the quotes for the Leasing Transactions. As advised by the Company, the Quotation Procedures for Leasing are reviewed by, inter alia, district general directors, administration and project department, business development department, legal affairs department, finance department and chief executive officer of the Group for entering into the Leasing Transactions under the Master Leasing Agreement and the senior management of the Group would review the work done by the relevant staff to ensure that all the internal control policies and the Quotation Procedures for Leasing are properly performed by the responsible staff. The quotes obtained by the Group in respect of the Quotation Procedures for Leasing represent comparable market rates regarding the real estate market in the PRC and public quotation of independent real estate agencies. The decision on whether to accept or reject the quotes will be made by the senior management of the Group upon going through the above-mentioned procedures. We noted that different departments and level of management of the Group will be responsible and participate in the Quotation Procedures for Leasing. From the internal control procedures conducted for the Lessee Samples we noted that the manager(s) of the relevant department(s) was responsible for reviewing the procedure for accessing the Quotation Procedures for Leasing and that an executive Director would sign and approve that the said procedures as described in this paragraph were properly complied with.

Having considered that (i) the internal control policy and assessment adopted by the Company; (ii) the quotes for the Leasing Transactions would be compared to market comparative quotes provided by independent real estate agencies; and (iii) the senior management of the Company will review and ensure the relevant work performed under the Quotation Procedures for Leasing are properly complied, we are of the view that the internal control assessment and Quotation Procedures for Leasing are sufficient to ensure that the quotation will be comparable to the market rates.

In light of the above, in particular (i) the Quotation Procedures for Leasing have been in place for the Leasing Transactions as a set of guidelines for the Company to follow; (ii) the internal control assessment is performed by the Company from time to time; (iii) the terms offered by the NWD Group are not less favorable than those offered by other independent landlords as observed from the samples obtained, we are of the view that the terms of the Master Leasing Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Determining the New Leasing Annual Caps

Taking into account of the coming into effect of HKFRS 16, the New Leasing Annual Caps for the amounts payable by the Group as lessee under the Leasing Transactions will comprise of (i) a fixed dollar amount (the “**Fixed Lease Payments**”); and (ii) a variable amount determined as a percentage of the annual sales/revenues generated from the leased properties (the “**Variable Lease Payments**”) for each of the three financial years ending 30 June 2023 are as follow:

	For the financial years ending		
	30 June 2021	30 June 2022	30 June 2023
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Fixed Lease Payments	406,000,000	428,000,000	450,000,000
Variable Lease Payments	300,000,000	330,000,000	360,000,000

As set out in the Board Letter, in line with the Group’s expansion strategies of “multiple presences within a single city” and “radiation city” while focusing on the development of the Greater Beijing, Greater Shanghai, Greater South Western markets, the Company expects that the Group will in the next three years, under favourable market conditions and with the appropriate opportunity, enter into a Definitive Leasing Agreement to open one additional Store each year, on terms and conditions similar to the existing Definitive Leasing Agreements. Having regard to the year-on-year growth rates for the gross domestic product of the PRC for each of the last four years as published by the National Bureau of Statistics of the PRC (which was consistently not less than 6%), and the expectation that the PRC economy will gradually recover from the impact of the COVID-19 pandemic and grow steadily in the next three years, the Group estimates that the prevailing market rates of comparable property(ies) will increase gradually by approximately 5% per year over the next three years, and the rental fees payable by the Group under the new Definitive Leasing Agreement(s) are expected to follow the same trend.

The Fixed Lease Payments

Pursuant to HKFRS 16, the Group as a lessee is required to recognise its Fixed Lease Payment under the Leasing Transactions to be recognised as right-of-use assets (“**ROU**”) representing its right to use the underlying leased assets for the duration of the lease term with the corresponding lease liabilities representing its obligation to make lease payments throughout the lease term. The assets and liabilities arising from such leases are initially measured on a present value basis taking into factor of a discount rate as required by HKFRS 16.

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We were given to understand from the Company that the proposed annual cap for Fixed Lease Payments under the Leasing Transactions for each of three financial years ending 30 June 2023 will be used as buffer of Fixed Lease Payments for any Definitive Leasing Agreement to be entered by the Group during the respective financial years (the “**FLP Buffer**”) for the purposes of, including but not limited to, the opening of additional Store(s) and/or relocation of its existing Store(s) while also complying the HKFRS 16 standard as required.

We noted from the interim report of the Company for the six months ended 31 December 2019 that orderly expanding the Group’s business network across the country (i.e. the PRC) has long been its expansion strategies of “multiple presences within a single city” and “radiation city” with a focus on the development of the Greater Beijing, Greater Shanghai and Greater South Western Regions. As advised by the Company, despite the current challenging operation environment, the Group believes that the physical retail sector will demonstrate resilience in adversity as the momentum in the PRC’s economic transformation continues in the long run and that the Group is more than capable to enter into a Definitive Leasing Agreement to open at least one additional Store for each of the upcoming financial years if and when appropriate opportunities arise (the “**Group’s Expansion Strategies**”).

Further advised by the Company, the Directors are of the view that, although there are concerns on the impacts caused by coronavirus (COVID-19) outbreak, having considered that the new confirmed cases of the COVID-19 are visibly decreasing and that factories in the PRC are resuming their operation, the PRC’s economy may steadily recover in the foreseeable future. On account of the above, the increments between the proposed annual caps for the Fixed Lease Payments over the three financial years ending 30 June 2023 were due to the expected increase in rental payments (which will be subject to the then location, size and other factors) payable by the Group as a lessee when the economy, the retailing industry and the consumers’ confidence in the PRC recover over time.

Based on the figures from “(COVID-19) Situation Reports” published by the World Health Organisation, we noticed the total number of new confirmed cases of COVID-19 in the PRC during the period from February 2020 to April 2020 on a bi-monthly basis (as the 1st half covering day 1 to day 15 of the month and the 2nd half covering day 16 to the last day of the month) has been decreasing as shown in below.

2020		New confirmed cases of the COVID-19 in the PRC on average per day
February	1st half	2,689
	2nd half	2,096
March	1st half	110
	2nd half	94
April	1st half	80
	2nd half	42

The World Health Organisation (<https://www.who.int/>)

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According to the National Bureau of Statistics of the PRC (the “**National Bureau**”), the year on year growth rates for the gross domestic product of the PRC (the “**GDP**”) for each of the first four years under 13th Five-Year Plan was consistently being not less than 6% while the growth of the GDP (if any) for the 1st quarter of 2020 was expected to drop significantly due to issues such as the COVID-19. However, the continuous reduction in new confirmed cases of the COVID-19 over time shall give positive momentum to the recovery of the overall economic growth. The International Monetary Fund in April 2020 published “World Economic Outlook Reports” stating that it expects the PRC is able to achieve a real GDP growth of 9.2% in 2021. In light of the above mentioned, and combining with various PRC’s ongoing consumption encouraging measures (such as consumption upgrade that may improve domestic consumption behaviors and urbanization strategies that encourages economy growth), we are in the view that the Group’s Expansion Strategies in the PRC to be practicable and reasonable and that a 5% market rates increment per year over the next three years is fair and reasonable.

Given that the Group will have to recognise its assets and liabilities arising from Leasing Transactions on a present value basis subjecting on the leasing terms and taking into factor of a discount rate, we have made references with the existing payable rents by the Group as a lessee from the Lessee Samples we obtained (i.e. existing leasing agreement entered between the Group with NWD Group and with independent third parties) to calculate the present values (i.e. the value of the ROU under HKFRS 16) to be incurred by the Group as if the Group opened, or relocated, a Store in a first and/or second tier city using an incremental borrowing rate of 4.9% covering the period of the respective leasing agreement. We noted that the FLP Buffer may only provide the Group a relatively small flexibility of choices (in terms of annual rent payable) to enter into new Definitive Leasing Agreement(s) in order to open or relocate a department Store with a fixed annual rent payment for each of the three financial years ending 30 June 2023.

Furthermore, we also consider that it is appropriate to adopt the 4.9% incremental borrowing rate in calculating the above said present values under the Leasing Transactions given that (i) it is equivalent to the benchmark interest rate for loans of over five years according to the People’s Bank of China; and (ii) the repayment of rental fee is denominated in RMB, which is in line with the currency of the abovementioned benchmark interest rate for loans.

In light of the above reasons, we are of the view that the proposed annual caps for Fixed Lease Payments for the financial years ending 30 June 2021, 2022 and 2023 are fair and reasonable.

The Variable Lease Payments

Pursuant to HKFRS 16, Variable Lease Payments payable by the Group as lessee under the Leasing Transactions will be recognised as expenses incurred by the Group. The proposed annual caps for the Variable Lease payments are set on the total Variable Lease Payments expected to be payable by the Group each financial year under the Leasing Transactions, with references to, including but not limited to, the projected revenue generated from the leased property(ies), management fees and those rental expenses incurred by the leasing of property for less than year payable by the Group to the NWD Group.

We were given to understand that under the definition of HKFRS 16, the Variable Lease Payment incurred by the Group under the Leasing Transactions for the financial year ended 30 June 2019 would have accounted for approximately 68.3% or approximately RMB161.0 million. Having deducting the expected Variable Lease Payments payable to the NWD Group, the remaining caps for Variable Lease Payments under the Leasing Transactions are estimated to be approximately RMB139.0 million, RMB169.0 million and RMB199.0 million for each of three financial years ending 30 June 2023 respectively (the “**VLP Buffer**”). The VLP Buffer will be used as buffer of Variable Lease Payments for any Definitive Leasing Agreement to be entered into by the Group during the respective financial years for the purposes of, including but not limited to, the opening of additional Store(s). The increments between the proposed annual caps for the Variable Lease Payments over the three financial years ending 30 June 2023 were due to the expected increase in rental payments (which will be subject to the then revenue generated from the Stores, location, size and other factors) payable by the Group as a lessee when the economy, the retailing industry and the consumers’ confidence in the PRC recover over time.

As mentioned previously, the PRC government had been implementing various policies, guidelines and measures to promote integrated urban-rural development in the PRC. For instance, the PRC government proposed the emergence of city clusters such as the formation of Beijing-Tianjin-Hebei, integration of Yangtze River Delta and the development of the Greater Bay Area which allowed each area to play to their own strengths and characteristics to promote economy’s value by adding capabilities and boosting internationalization.

According to the statistics from National Bureau, the urbanization rate of the PRC has increased steadily from approximately 56.1% in 2015 to approximately 60.6% in 2019. The PRC’s urban residents are earning and spending considerably more on a per capita basis and that the PRC’s retail industry has also been on a trend of expansion over the years. Set out below are the growth rates of urban residential disposable income per capita, the growth rates of urban residential consumption

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expense per capita and the total value of consumer goods in retailing in the PRC from 2015 to 2019:

Growth rates of urban residential disposable income and urban residential consumption expense per capita in the PRC

Year	Growth rate (%) of urban residential	
	Disposable income per capita	Consumption expense per capita
2015	8.2	7.1
2016	7.8	7.9
2017	8.3	5.9
2018	7.8	6.8
2019	7.9	7.5

Source: National Bureau (<http://www.stats.gov.cn/>)

Total value of consumer goods in retailing in the PRC

Year	Total value of consumer goods retailing (RMB trillion)	Growth rate (%)
2015	30.1	10.7
2016	33.2	10.4
2017	36.6	10.2
2018	38.1	4.0
2019	41.2	8.0

Source: National Bureau (<http://www.stats.gov.cn/>)

Based on the Group's Expansion Strategies, the Group is expected to enter into Definitive Leasing Agreement and open new Store(s) in each of the following financial years. However, the method of rent payments (i.e. either to be fallen under Fixed Lease Payment or Variable Lease Payment) cannot be accurately determined at this point and will be subject to the then operation conditions and negotiation results with the counter party.

In light of the above uncertainties, we have therefore made references with the leasing agreements among the Lessee Samples we obtained (where the Group is the lessee and the payment of which featured variable lease payment arrangement) that was charged with the highest variable lease payment under the financial year ended 30 June 2019, as the expected maximum expenses to be incurred by the Group to open a Store (the "**Payment for a VLP Store**") under the variable lease payment

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arrangement. We noted that the VLP Buffer is sufficient for the Group to open one to two (subject to the location and usable size) Store(s) with similar characteristics and usable size to the existing Store of the Group based on the Payment for a VLP Store. Given the fact that the Variable Lease Payment will be affected by the performances of the Store(s) and considering the above mentioned prospect of the economy of the PRC after the COVID-19, we considered the VLP Buffer is necessary to provide the Group the flexibility to open additional Store(s) in order to capture future opportunities and is therefore justifiable. In light of the above, we are of the view that the proposed annual caps for Variable Lease Payments for the financial years ending 30 June 2021, 2022 and 2023 are fair and reasonable.

Having considered (i) the decrease in the number of new confirmed cases of COVID-19 and the expected recovery of the PRC economy; (ii) the encouraging policies in urbanization and the increasing in sales of consumers' goods in the PRC that support the Group's Expansion Strategy; (iii) that the FLP Buffer may provide the Group the necessary flexibility to comply with HKFRS 16 with Fixed Lease Payments; and (iv) that based on Payment for a VLP Store, the VLP Buffer is sufficient for the Group to open one or more additional Store(s) for the payment terms that would have fallen under Variable Lease Payment, we are of the view that bases adopted to determine the New Leasing Annual Caps are justifiable, fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps are conducted in the ordinary and usual course of business of the Group and the terms and conditions of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps are (i) on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we also recommend, the Independent Shareholders to vote in favor of the relevant resolutions for approving the renewal of the Master Leasing Agreement, the Leasing Transactions and the New Leasing Annual Caps to be proposed at the EGM.

Yours Faithfully,
For and on behalf of
Veda Capital Limited
Julisa Fong
Managing Director

Ms. Julisa Fong is a licensed person registered with the SFC and a responsible officer of Veda Capital which is licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activity and has over 23 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained in this circular or this circular misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or, as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as follows:

(a) Long positions in shares

	Capacity	Nature of interest	Number of shares held	Total	Approximate percentage of shareholding (direct or indirect)
NWD (Ordinary shares)					
Dr. Cheng Kar-shun, Henry	Beneficial owner	Personal interest	10,675,637	10,675,637	0.10
Dr. Cheng Chi-kong, Adrian	Beneficial owner	Personal interest	4,500,000	4,500,000	0.04
NWS Holdings Limited (Ordinary shares of HK\$1.00 each)					
Dr. Cheng Kar-shun, Henry	Beneficial owner	Personal interest	18,349,571	30,349,571	0.78
	Controlled Corporation	Corporate interest	12,000,000 ⁽¹⁾		

Note:

(1) These shares are beneficially owned by a company wholly-owned by Dr. Cheng Kar-shun, Henry.

(b) Long positions in underlying shares — share options**NWD**

Name	Date of grant	Exercisable period (Note)	Number of share options held	Exercise price per share HK\$
Dr. Cheng Kar-shun, Henry	3 July 2017	(1)	2,000,000	10.036
Dr. Cheng Chi-kong, Adrian	10 June 2016 3 July 2017	(2) (1)	3,736,471 2,000,000	7.540 10.036

Notes:

- (1) Divided into 4 tranches exercisable from 3 July 2017, 3 July 2018, 3 July 2019 and 3 July 2020 respectively to 2 July 2021.
- (2) Divided into 4 tranches exercisable from 10 June 2016, 10 June 2017, 10 June 2018 and 10 June 2019 respectively to 9 June 2020.
- (3) The cash consideration paid by each of the above Directors for each grant of the share options is HK\$10.00.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors and chief executive of the Company or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or, as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

3. DISCLOSURE OF INTEREST OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors were aware, as of the Latest Practicable Date, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

	Capacity	Nature of interest	Number of shares held	Total	Approximate percentage of shareholding (direct or indirect)
Cheng Yu Tung Family (Holdings) Limited (“CYTFH”) ⁽¹⁾	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Cheng Yu Tung Family (Holdings II) Limited (“CYTFH-II”) ⁽²⁾	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Chow Tai Fook Capital Limited (“CTFC”) ⁽³⁾	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Chow Tai Fook (Holding) Limited (“CTFH”) ⁽⁴⁾	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Chow Tai Fook Enterprises Limited (“CTFE”) ⁽⁵⁾	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
NWD	Controlled corporation	Corporate interest	45,500,000	1,264,400,000	74.99
	Beneficial owner	–	1,218,900,000		

Notes:

- (1) CYTFH holds 48.98% direct interest in CTFC and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFC.
- (2) CYTFH-II holds 46.65% direct interest in CTFC and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFC.

- (3) CTFC holds 81.03% direct interest in CTFH and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFH
- (4) CTFH holds 100% direct interest in CTFE and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFE.
- (5) CTFE together with its subsidiaries have interest in more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by NWD.

4. MATERIAL ADVERSE CHANGE

The outbreak of the coronavirus disease 2019 (COVID-19) is expected to have impact on the Group's business operations, and the Board is still assessing its overall impact on the Group's financial performance. The Board will continue to monitor the status and development of the COVID-19 outbreak and its impact on the operations and financial performance of the Group and will make announcement(s) as and when appropriate.

Save as disclosed above, as of the Latest Practicable Date, there was no other material adverse change in the financial or trading position of the Group since 30 June 2019, being the date to which the latest published audited financial statements of the Group were made up.

5. DIRECTORS' SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group, other than service contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation other than statutory compensation.

6. DIRECTORS' INTERESTS IN ASSETS

Dr. Cheng Kar-shun, Henry and Dr. Cheng Chi-kong, Adrian are members of the Cheng's family which holds interest in CYTFH and CYTFH-II which in turn indirectly control CTFE. CTFE is the controlling shareholder of NWD. NWD is a substantial Shareholder. The Group had entered into lease agreements regarding rental of properties between members of the NWD Group and members of the Group since 30 June 2019. The aggregate amount of such transactions are covered under the master leasing agreement dated 11 April 2014 made between the Company and NWD and renewed for three years commencing on 1 July 2017 as disclosed in the Company's 2019 annual report.

As of the Latest Practicable Date, save as disclosed in this circular, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 30 June 2019, being the date to which the latest published audited financial statements of the Group were made up.

7. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which was significant in relation to the business of the Group.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of the Latest Practicable Date, the following Directors have interest in the following businesses of the Group which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group according to the Listing Rules:

Name of Director	Name of entity	Description of business	Nature of interest of the Director in the entity
Dr. Cheng Kar-shun, Henry	NWD	Property investment	Director
	CTFE group of companies	Property investment	Director
	Shanghai New World Shangxian Lane Development Limited	Property investment	Director
Dr. Cheng Chi-kong, Adrian	NWD	Property investment	Director
	Cheung Hung Development (Holdings) Limited	Property investment	Director
	CTFE group of companies	Property investment	Director

9. COMMON DIRECTORS

As at the Latest Practicable Date, the following Directors were also directors of the companies which had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of common director	Name of company
Dr. Cheng Kar-shun, Henry	CYTFH
Dr. Cheng Kar-shun, Henry	CYTFH-II
Dr. Cheng Kar-shun, Henry	CTFC
Dr. Cheng Kar-shun, Henry Dr. Cheng Chi-kong, Adrian	CTFH
Dr. Cheng Kar-shun, Henry Dr. Cheng Chi-kong, Adrian	CTFE
Dr. Cheng Kar-shun, Henry Dr. Cheng Chi-kong, Adrian	NWD

10. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Veda Capital	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Veda Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

As of the Latest Practicable Date, Veda Capital did not have any direct or indirect interest in any assets which had since 30 June 2019 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group. As of the Latest Practicable Date, Veda Capital was not beneficially interested in the

share capital of any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. GENERAL

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the head office and principal place of business of the Company in Hong Kong at 7th Floor, 88 Hing Fat Street, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the Master Leasing Agreement;
- (b) the written consent as referred to under the paragraph headed “Expert and consent” in this appendix;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;
- (d) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” of this circular; and
- (e) this circular.

NOTICE



新世界百貨中國有限公司

New World Department Store China Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 825)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of

NOTICE OF EGM

Notes:

- (1) Any member entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and to vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof.
- (3) A form of proxy for use at the Meeting is enclosed.
- (4) To be valid, the proxy form, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the branch share registrar and transfer agent of the Company in Hong Kong at Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (or any adjournment thereof). Completion and return of the proxy form will not preclude members from attending and voting in person at the Meeting (or any adjournment thereof).
- (5) The register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the EGM, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 June 2020.
- (6) The resolution as set out above will be determined by way of a poll.
- (7) If a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 7:30 a.m. to 11:30 a.m. on the date of the Meeting, the Meeting will be automatically postponed to a later date and/or time as determined by the Company. The Company will publish an announcement on its corporate website (www.nwds.com.hk) and the HKEXnews' website (www.hkexnews.hk) to notify shareholders of the Company of the date, time and location of the rescheduled meeting.
- (8) In the event of any inconsistency, the English language text of this notice shall prevail over the Chinese language text.
- (9) As at the date of this notice, the non-executive director of the Company is Dr. Cheng Kar-shun, Henry; the executive directors of the Company are Dr. Cheng Chi-kong, Adrian and Mr. Cheung Fai-yet, Philip; and the independent non-executive directors of the Company are Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of the Circular for the measures being taken to prevent and control the spread of the COVID-19 at the EGM, including but not limited to:

- (a) compulsory body temperature check;
- (b) compulsory wearing of surgical face mask;
- (c) maintaining a safe distance between seats;
- (d) no provision of refreshments and beverages; and
- (e) no distribution of coupons for subsequent consumption.

Any person who does not comply with the precautionary measures will be denied entry into or be required to leave the EGM venue.

In light of the continuing risks posed by the COVID-19 and as part of the Company's control measures to safeguard the health and safety of the shareholders of the Company (the "Shareholders"), the Company strongly encourages the Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified in note 4 above, instead of attending the EGM in person.