New World China Land Limited
新世界中國地產有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code : 917)**

# CONTINUING CONNECTED TRANSACTION

On 13th December, 2003, the board of directors of the Company announced that the Landlord, an indirect 88% owned subsidiary of the Company, has entered into a tenancy agreement for the lease of a property to the Tenant, an indirect wholly-owned subsidiary of NWD.

On 26th November, 2004, the Landlord entered into a supplemental agreement with the Tenant to revise certain terms of the Tenancy Agreement.

It is expected that the transaction amounts under the Tenancy Agreement and the Supplemental Agreement will exceed 0.1% but will be less than 2.5% of each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules. As such, the transactions are classified as continuing connected transactions exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules but will be subject to the annual review and reporting requirement under Chapter 14A of the Listing Rules.

Reference was made to the announcement of New World China Land Limited (the "**Company**") dated 13th December 2003 relating to the following tenancy agreement (the "**Tenancy Agreement**"):

## TENANCY AGREEMENT DATED 13TH DECEMBER, 2003

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|---|---|
| Landlord: | Dalian New World Plaza International Co., Ltd. 大連新世界廣場國際有限公司, an indirect 88% owned subsidiary of the Company (the "**Landlord**") |
| Tenant: | Dalian New World Department Store Ltd. 大連新世界百貨有限公司 (the "**Tenant**"), a company principally engages in the operation of department store in Dalian, the People's Republic of China ("**PRC**") and is an indirect wholly-owned subsidiary of New World Development Company Limited ("**NWD**") |
| Premises: | The first to fifth floors and portion of the sixth to seventh floors as well as the basement one of Dalian New World Plaza (the "**Plaza**") located in Tianjin Street, Zhongshan District, Dalian, the PRC |
| Lettable area: | 26,845 square metres |

**Term:** twenty years commencing from 18th October, 2002 to 17th October, 2022 *(note 1)*

**Rent-free period:** 18th October, 2002 to 31st December, 2003 *(note 2)*

**Monthly rental:** The higher of either:

(A) basic rental ("**Basic Rental**") which is:

(i) RMB30 per square metre per month with effect from 1st January, 2004;

(ii) RMB30 per square metre per month plus 3% of the gross sale revenue ("**GSR**") from the Tenant's operation with effect from 1st January, 2007; or

(B) 5% of the GSR ("**Sales Rental**").

The rental is exclusive of any rate, management fees and maintenance charges.

**Payment term:** The Basic Rental is payable in full within fourteenth days in the next calendar month. In the event that the yearly Sales Rental is higher than the yearly Basic Rental in any year, the difference will be payable by the Tenant after the relevant year end.

**Committed minimum GSR:** The Tenant agreed to commit the following minimum GSR for the purpose of calculating the rental:

(i) the minimum GSR in each of the five calendar years from 2012 to 2016 would be increased by 15% from the GSR in the year 2011;

(ii) the minimum GSR in each of the five calendar years from 2017 to 2021 would be increased by 15% from the GSR in the year 2016;

(iii) the minimum GSR during the lease period in the year 2022 would be increased by 15% from the GSR in the corresponding period in the year 2021.

Any shortfall in the rental payable due to the differences between the committed GSR and the actual GSR will be payable by the Tenant.

**Scope of GSR:** GSR shall be the sales revenue earned by the Tenant in course of business which is carried on in the Premises as reported to the tax authority in the PRC before value-added tax, including but not limited to the rental received from sub-lease of any part of the Premises, sales of consigned goods or associated merchandises and its own products.

*Notes*

1. As required by Rule 14A.35 of the Listing Rules, the period for the Tenancy Agreement (as supplemented by the Supplemental Agreement) must not exceed 3 years, except in special circumstances which are limited to cases where the nature of the transaction requires the contract to be of a duration longer than 3 years. However, the Directors believe that the longer the term of the leases in relation to the Premises, the less frequent is the Company required to renew the leases which will be subject to fluctuating market conditions and the more stable is the recurrent rental revenue stream to the Company. Moreover, the Tenant, which requires spacious area for operation of a department store, is more willing to enter into long term leases as it would minimize their chance of relocation. In fact, the Tenant has refused the Company's request to enter into a new tenancy agreement with the Tenant with a term of 3 years. To consider the risk of losing present and future business opportunities with the Tenant which is a major customer of the Company; the potential claim of damages from the Tenant as stipulated under the Tenancy Agreement if the Landlord has default in carrying out the terms of the Tenancy Agreement; and the difficulty facing the Landlord in finding other tenant(s) to fully occupy the Premises with substantially the same terms, the failure of which may have adverse effect on the valuation of the Plaza and the results of the Company, the Directors consider that performance of the Tenancy Agreement is in the best interest of the Company. As a whole, the Directors are of the view that the terms of the Tenancy Agreement are of normal commercial terms and its having in excess of 3 years is in the interest of the Company.

   To comply with Rule 14A.46 of the Listing Rules, the board of Directors of the Company has appointed Guotai Junan Capital Limited ("Guotai Junan") as the independent financial adviser to advise them in relation to the term (or duration) of the Tenancy Agreement (as supplemented by the Supplemental Agreement). The Directors noted that, in arriving at its opinion, Guotai Junan has considered certain background information, including but not limited to: (i) the principal business of the Company of engaging in property development and related investment in the PRC; (ii) revenue from rental operation is one of the major sources of income of the Group; (iii) the fact that the Tenant had refused the Company's request to enter into a new tenancy agreement with a term of 3 years; (iv) the risk of losing present and future business opportunities with the Tenant which is a major customer of the Company; (v) the potential claim of damages from the Tenant as stipulated under the Tenancy Agreement if the Landlord has default in carrying out the terms of the Tenancy Agreement; and (vi) the difficulty facing the Landlord in finding other tenant(s) to fully occupy the Premises with substantially the same terms, the failure of which may have adverse effect on the valuation of the Plaza and the results of the Company.

   Guotai Junan has also considered the following reasons for entering into the Tenancy Agreement (as supplemented by the Supplemental Agreement) by the Company: (i) the Company's strategy to primarily focus on producing residential units for sale while gradually building up its rental income base as stated in the Company's 2004 interim report; (ii) the minimum amount of rental income to be received by the Company under the Tenancy Agreement (as supplemented by the Supplemental Agreement); (iii) the view of the directors of the Company that the opening of a department store in the Plaza helps increasing the visitor traffic to the shopping arcade of the Plaza. Furthermore, Guotai Junan has reviewed certain tenancy agreements entered into by the Group with subsidiaries/related companies of NWD and certain tenancy agreements entered into by subsidiaries/related companies of NWD with other parties in relation to the operation of department stores in the PRC as provided by the Company, the terms of which are found to be comparable to the term of the Tenancy

Agreement (as supplemented by the Supplemental Agreement) and examined the terms of the tenancy agreements entered into by 4 sizeable listed chain stores in the PRC in relation to their shops.

The board of Directors of the Company was advised by Guotai Junan after taking into consideration of the above information and factors, that it is justifiable to have the duration of the Tenancy Agreement (as supplemented by the Supplemental Agreement) longer than 3 years because (i) it is of normal business practice for the Tenancy Agreement (as supplemented by the Supplemental Agreement) to be of such duration; (ii) entering into the Tenancy Agreement (as supplemented by the Supplemental Agreement) helps to build up the rental income base of the Company for a longer period and is consistent with the strategy of the Company; and (iii) the opening of a department store in the Plaza helps increasing the visitor traffic to the shopping arcade of the Plaza and enhances the value of the remaining portion of the Plaza as well as the Plaza as a whole.

2. The rent-free period is granted during the period when the towers of the Plaza are still under construction.

## SUPPLEMENTAL AGREEMENT DATED 26TH NOVEMBER 2004

On 26th November 2004, a supplemental agreement (the "**Supplemental Agreement**") was entered into between the Landlord and the Tenant to revise certain terms of the Tenancy Agreement to the effect that:

(i) the lease of the seventh floor of the Premises, totalling 312 square metres, to the Tenant ceased on 1st April, 2004;

(ii) the Tenant leases an additional area of 5,501.33 square metres on the sixth floor of the Premises. The rental payable by the Tenant in respect of this new leased area is the higher of either (a) basic rental which is RMB20 per square metre with effect from 15th March 2005, with an addition of 5% of the GSR arising from Tenant's operation in the new leased area with effect from 1st January, 2007; or (b) 5% of the GSR, with rent-free period up to 14th March, 2005.

The basic rental payable under the Supplemental Agreement is determined at a lower amount than that of the Tenancy Agreement as it is normal commercial practice that the upper floor of a shopping centre is of lower rental value. Save for the amendments set out in the Supplemental Agreement, other terms and conditions contained in the Tenancy Agreement shall remain in full force and effect.

## THE CAP AMOUNT

The Directors expect that the annual rental receivable under the Tenancy Agreement (as supplemented by the Supplemental Agreement) will not exceed RMB22,000,000 (equivalent to HK$20,754,800) (the "**Cap Amount**"). The Cap Amount is determined with reference to the Basic Rental receivable under the Tenancy Agreement and the Supplemental Agreement as the Directors anticipate that the Basic Rental will be higher than the Sales Rental having regard to the following factors: (i) the historical GSR of the tenant of about RMB94,000,000 for the financial year ended 30th June 2004; (ii) the projected increase in GSR of the Tenant by 25%, 20%, 15% and 10% in the financial years 2005, 2006, 2007 and 2008 respectively and 8% in each of the financial years 2009 to 2011 which is estimated with reference to the sales performance of the other department stores in the PRC being operated by the group companies of the Tenant, after that the rental will be determined with reference to the committed GSR of the Tenant during the remaining term of the tenancy. The Directors of the Company (including the independent non-executive Directors) consider that the basis for determination of the Cap Amount is reasonable.

## Reason for entering into the Tenancy Agreement and the Supplemental Agreement

The Company is principally engaged in property development and property related investment in the PRC. The Plaza is one of the prominent properties owned by the group of the Company in the PRC and comprises two towers for office and apartment uses resting on a seven-level retail podium. The Plaza is held by the Landlord for sale and investment purposes. The lease of the Premises to the Tenant for operation of a department store provides a source of stable income and helps increase in visitor traffic to the shopping arcade of the Plaza and enhances the value of the remaining portion of the Plaza as well as the Plaza as a whole. For the purposes of meeting the business requirement of the Tenant, in particular the expansion of the department store operated by the Tenant on the sixth floor of the Premises, both parties agreed to revise the leased area of the Tenancy Agreement under the terms of the Supplemental Agreement.

The Tenancy Agreement and the Supplemental Agreement were arrived at after arm's length negotiations between the Landlord and the Tenant which are on normal and commercial terms and entered into in the ordinary and usual course of business of the Company. The rental of the Premises was determined by reference to the prevailing market rentals of similar properties in the vicinity of the Premises. The Directors of the Company (including the independent non-executive Directors) consider that the terms of the Tenancy Agreement and the Supplemental Agreement are fair and reasonable as far as the shareholders of the Company as a whole are concerned and are in the interest of the Company.

# GENERAL

As at the date hereof, NWD is a substantial shareholder of the Company by virtue of its holding of approximately 69.33% attributable interests in the Company's issued share capital. The Tenant is an indirect wholly-owned subsidiary of NWD and is therefore regarded as a connected person of the Company under the Listing Rules. It is expected that the transaction amounts under the Tenancy Agreement and the Supplemental Agreement will exceed 0.1% but will be less than 2.5% of each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules. As such, the transactions are classified as continuing connected transactions exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules but will be subject to the annual review and reporting requirement under Chapter 14A of the Listing Rules.

As at the date hereof, the board of directors of the Company comprises: (1) Dr. Cheng Kar-shun, Henry, Messrs. Doo Wai-hoi, William, Cheng Kar-shing, Peter, Leung Chi-kin, Stewart, Chow Kwai-cheung, Chow Yu-chun, Alexander, Fong Shing-kwong, Michael as executive directors; (2) Mr. Fu Sze-shing as non-executive director and (3) Messrs. Lo Hong-sui, Cheng Wai-chee, Christopher and Tien Pei-chun, James as independent non-executive directors.

*For your convenience, the announcement contains translation between Hong Kong Dollars and Renminbi at HK$0.9434 = RMB1.00.*

By Order of the Board of
**NEW WORLD CHINA LAND LIMITED**
**Chow Yu Chun, Alexander**
*Company Secretary*

Hong Kong, 26th November 2004

*Please also refer to the published version of this announcement in the* ***(The Standard)***