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**WHEELOCK AND COMPANY LIMITED**

*(Incorporated in Hong Kong  
with limited liability)*

Stock Code: 20

**THE WHARF (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong  
with limited liability)*

Stock Code: 4

**JOINT ANNOUNCEMENT**

**CONTINUING CONNECTED TRANSACTION**

On 10 December 2010, a wholly-owned subsidiary of Wharf as the landlord and City Super Limited as the tenant entered into a renewal tenancy agreement in respect of Shops 3001-3002 and 3103-3104, Level 3, Gateway Arcade, Harbour City, Kowloon, Hong Kong.

As City Super Limited is 39.08% effectively owned by Lane Crawford Holdings Limited which in turn is indirectly wholly-owned by a trust the settlor of which is the chairman of both Wheelock and Wharf, namely, Mr. Peter K. C. Woo. Consequently, City Super Limited is regarded as a connected person of Wheelock and Wharf within the meaning of the Listing Rules and therefore, the entry into of the abovementioned agreement constitutes a continuing connected transaction for both Wheelock and Wharf (which is a 50.02%-owned subsidiary of Wheelock).

For each of Wheelock and Wharf, the relevant transaction, given the size or value thereof, is exempt from independent shareholders' approval requirement, but is subject to requirements regarding announcement and reporting etc. under Rules 14A.37 to 14A.40 and Rules 14A.45 to 14A.47 of the Listing Rules.

Pursuant to Rule 14A.35(1) of the Listing Rules, an independent financial adviser has been engaged jointly by Wheelock and Wharf to review, *inter alia*, the relevant agreement, and has opined, *inter alia*, that the duration of the renewal tenancy agreement, being in excess of three years, is justifiable and it is the normal business practice for contracts of this type to be of such duration.

## INTRODUCTION

On 5 January 2005, WRL, a wholly-owned subsidiary of Wharf (which is a 50.02%-owned subsidiary of Wheelock), as the landlord and City Super as the tenant, entered into the Existing Agreement for the leasing of Shops 3001-3002 and 3103-3104, Level 3, Gateway. The Existing Agreement will expire on 14 December 2010. For renewing the relevant tenancy, WRL and City Super entered into the Renewal Agreement on 10 December 2010.

## DETAILS OF THE RENEWAL AGREEMENT

- Signing Date : 10 December 2010
- Parties : WRL as the landlord and City Super as the tenant
- Term : Six years from 15 December 2010 to 14 December 2016
- Premises : Shops 3001-3002 and 3103-3104, Level 3, Gateway
- Lettable Area : Approximately 55,900 sq. ft.
- Rent : The approximate Annual Rents receivable by WRL in cash on monthly basis (with the turnover rent, also receivable in cash on monthly basis, being subject to subsequent adjustment, if any, on yearly basis) under the Renewal Agreement for each of the seven financial years of Wheelock and Wharf ending 31 December 2016 are as follows:

<u>Financial Year ending 31 December</u>	<u>Annual Rents (HK\$ Million)</u>	
2010	1.38	)
2011	30.18	) OR, turnover rent ranging
2012	30.27	) from 7.25% to 7.5% of
2013	32.19	) gross sales, whichever is
2014	32.25	) higher
2015	33.54	)
2016	32.14	)

The abovementioned Annual Rents and the turnover rent percentages are agreed and arrived at after due negotiation between the parties on an arm's length basis with reference to the prevailing market conditions. The rents receivable under the Renewal Agreement are no less favourable to WRL than those for comparable premises available from independent third parties.

## ANNUAL CAP AMOUNTS

For reference, the annual rental cap amounts under the Existing Agreement are HK\$45.55 million, HK\$51.01 million, HK\$56.12 million, HK\$60.60 million, HK\$65.45 million and HK\$67.74 million in respect of the six financial years ending 31 December 2010 respectively, and the actual amounts of the relevant annual rents paid by City Super to WRL under the Existing Agreement are HK\$20.73 million, HK\$19.82 million, HK\$29.15 million, HK\$32.61 million and HK\$32.30 million respectively in respect of the five financial years ended 31

December 2009, with the estimated amount of the actual rent for the period from 1 January to 14 December 2010 being HK\$35.0 million.

As estimated by the parties, the base rent or turnover rent, whichever applicable, receivable by WRL under the Renewal Agreement for the period from its commencement (i.e. on 15 December 2010) to 31 December 2010 will be below the *de minimis* level under Rule 14A.33(3) of the Listing Rules. However, for the remaining period from 1 January 2011 onwards, the rent under the Renewal Agreement receivable by WRL for each of the six financial years of both Wheelock and Wharf ending 31 December 2016 are estimated to exceed the *de minimis* level under Rule 14A.33 of the Listing Rules. Therefore, the parties have agreed to adopt an annual cap amount, as required by Rule 14A.35(2) of the Listing Rules, for the base rent or turnover rent, whichever applicable, under the Renewal Agreement for each of the six financial years of Wheelock and Wharf ending 31 December 2016. Such Annual Cap Amounts are in line with Wharf's internal forecasts based on an upside scenario and represent the expected maximum base rent or turnover rent, whichever is higher, receivable from City Super with reference to (i) the historic trading records in respect of the tenancy under the Existing Agreement for the relevant premises, and (ii) possible buoyant retail sentiment and environment in the next several years as projected by the management of Wharf. The Annual Cap Amounts are set out below:

<u>Financial Year ending 31 December</u>	<u>Annual Cap Amounts (HK\$ Million)</u>
2011	60.36
2012	60.36
2013	64.39
2014	64.39
2015	67.07
2016	67.07

The adoption of the abovementioned Annual Cap Amounts does not and will not prevent WRL from recovering the rent and other sum payable by City Super under the Renewal Agreement in excess of the Annual Cap Amount in respect of any particular financial year of Wheelock and Wharf. If for any of such years, the amount of rent payable by City Super as calculated in accordance with the provisions (save for the provision(s) relating to Annual Cap Amounts, i.e. the relevant rental restriction concerning such Annual Cap Amounts to be regarded as not applicable) of the Renewal Agreement would be higher than the relevant Annual Cap Amount, WRL may receive such higher amount of rent in full (or any amount exceeding the relevant Annual Cap Amount, if not in full) for that year provided and in the event that both Wheelock and Wharf at the relevant time have duly complied with the relevant requirements under the Listing Rules for the receipt of such higher amount of rent.

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

With ownership of properties for letting being one of the principal business activities of both Wheelock Group and Wharf Group, rental income is an important recurrent income source of both groups. The directors of Wheelock and Wharf believe that the Transaction is necessary for the continuous growth and operations of, and will generate recurrent rental for both Wheelock Group and Wharf Group, and is beneficial to Wheelock and Wharf and their respective shareholders as a whole.

City Super is one of the anchor tenants of Gateway attracting high level of foot traffic with its substantial investment in renovation for its store, and the Transaction will maintain the upscale image of Gateway in the long run.

## **GENERAL**

The directors (except Mr. Peter K. C. Woo, being the only Director who has a material interest in the Transaction and who abstained from participating in the approval of the relevant board resolutions due to conflict of interest), including independent non-executive directors, of both Wheelock and Wharf are of the view that the Renewal Agreement is on normal commercial terms with reference to the prevailing market conditions, and the terms of the Renewal Agreement (including the Annual Cap Amounts) are fair and reasonable and in the interests of both Wheelock and Wharf and their respective shareholders as a whole. Furthermore, the Renewal Agreement was entered into the ordinary and usual course of business of both Wheelock Group and Wharf Group after due negotiations on an arm's length basis with reference to the prevailing market conditions.

The principal business activities of both the Wheelock Group and the Wharf Group are ownership of properties for development and letting, investment holding, container terminals as well as communications, media and entertainment. The principal business activity of City Super is the operation of up-market supermarkets and life-style stores for the sale of goods and other consumables.

As at the date of this announcement, the board of directors of Wheelock comprises Mr. Peter K. C. Woo, Mr. Stephen T. H. Ng, Mr. Paul Y. C. Tsui and Mr. Ricky K. Y. Wong, together with five independent non-executive directors, namely, Mr. Alexander S. K. Au, Mr. B. M. Chang, Mr. Herald L. F. Lau, Mr. Kenneth W. S. Ting and Mr. Glenn S. Yee, and the board of directors of Wharf comprises Mr. Peter K. C. Woo, Mr. Stephen T. H. Ng, Ms. Doreen Y. F. Lee, Mr. T. Y. Ng and Mr. Paul Y. C. Tsui, together with six independent non-executive directors, namely, Hon. Paul M. P. Chan, Professor Edward K. Y. Chen, Dr. Raymond K. F. Ch'ien, Hon. Vincent K. Fang, Mr. Hans Michael Jebsen and Mr. James E. Thompson.

## **REGULATORY ASPECTS**

As City Super is a wholly-owned subsidiary of a company which is 39.08%-owned by LCH which in turn is indirectly wholly-owned by a trust the settlor of which is the chairman of Wheelock and Wharf (which is a 50.02%-owned subsidiary of Wheelock), namely, Mr. Peter K. C. Woo. Consequently, City Super is regarded as a connected person of Wheelock and Wharf within the meaning of the Listing Rules and therefore, the Transaction constitutes a continuing connected transaction for both Wheelock and Wharf.

The duration of the Renewal Agreement exceeds the maximum period of three years as prescribed in Rule 14A.35(1) of the Listing Rules. On the basis of information obtained by Wheelock and Wharf relating to certain existing lease agreements entered into by City Super and/or its subsidiary or affiliated companies with other unrelated landlords, and also between landlords and tenants which are unrelated to and independent of Wheelock, Wharf and City Super, for operation of supermarkets or other retail operations of comparable size, such longer duration, namely, a duration of not less than six years, is an industry norm for tenancy agreements of this type. The term of such tenancy agreement is normally longer than the general terms of tenancies for general retail shops of about two to three years. All over the past years, various tenancies, including the Existing Agreement, between the Wharf Group and City Super have been for durations of about six years. Such long duration is also in line

with various tenancies between Wharf and other unrelated tenants in respect of retail premises owned by the Wharf Group. Furthermore, City Super, though technically a connected person of both Wheelock and Wharf, is a non wholly-owned subsidiary and effectively under the control of a company the controller of which is unrelated to and independent of Wheelock, Wharf, and the chairman of both Wheelock and Wharf, namely, Mr. Peter K. C. Woo. That being the case, it has not been feasible to secure the agreement of City Super to a term of not more than three years for renewal of the relevant tenancy.

For each of Wheelock and Wharf, since one or more of the applicable percentage ratios as set out in Rule 14.07 of the Listing Rules in respect of the Transaction for the relevant financial years would exceed the 0.1% *de minimis* level under Rule 14A.33(3) of the Listing Rules, while all such ratios are below the 5% threshold under Rule 14A.34 of the Listing Rules, the Transaction is exempt from independent shareholders' approval requirement, but is subject to requirements regarding announcement and reporting etc. under Rules 14A.37 to 14A.40 and Rules 14A.45 to 14A.47 of the Listing Rules.

### **VIEW FROM INDEPENDENT FINANCIAL ADVISER**

Pursuant to Rule 14A.35(1) of the Listing Rules, Platinum Securities has been engaged jointly by Wheelock and Wharf as their independent financial adviser to give advice and explanation on why a longer period (more than 3 years) for the Renewal Agreement is required and to confirm that it is the normal business practice for contracts of this type to be of such duration.

Platinum Securities has reviewed, among other things, the Renewal Agreement and also the Existing Agreement for the premises. Furthermore, Platinum Securities has reviewed several existing agreements of Other Relevant Group's Tenancies and Other Relevant CS Tenancies, together with copies of the Outside Parties' Leases, all being in relation to retail and/or supermarket premises of comparable size and for durations of more than three years. A summary of the review by Platinum Securities of the abovementioned documents is illustrated in the table below:

<u>Nature of documents</u>	<u>Duration of the tenancy agreements</u>
1. The Renewal Agreement	6 years
2. The Existing Agreement	6 years
3. Other Relevant Group's Tenancies	4 years to 8 years
4. Other Relevant CS Tenancies	4 years to 6 years
5. Outside Parties' Leases	6 years

As shown in the above table, the duration of the respective tenancy agreements reviewed generally exceeds the three-year period as prescribed in Rule 14A.35(1) of the Listing Rules and ranges from 4 years to 8 years which are generally in line with the duration of the Renewal Agreement.

Following such review, Platinum Securities has opined, *inter alia*, that being an up-market retail store operator in Hong Kong, there is undoubtedly a need for City Super to have substantial investment requirements for its retail store premises on an ongoing basis. This will include extensive designs, refurbishments, renovations, staff recruitment and ongoing training. In view of this, the need on the part of City Super to have longer term business plans and projections thereby necessitating, amongst other things, longer duration of tenancy agreements of its retail premises is reasonable as tenancies of a short duration might give rise

to business uncertainties and may be commercially disadvantageous to City Super. In the light of the above, Platinum Securities is of the opinion that the duration of the Renewal Agreement, being in excess of three years, is justifiable and it is the normal business practice for contracts of this type to be of such duration.

## **TERMS USED IN THIS ANNOUNCEMENT**

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“Annual Cap Amount(s)”	the respective maximum annual rental amounts for the six financial years of both Wheelock and Wharf ending 31 December 2016 as agreed under the Renewal Agreement
“Annual Rents”	annual base rents, exclusive of rates, air-conditioning charges and management fee, receivable by WRL and payable by City Super under the Renewal Agreement
“City Super”	City Super Limited, a company incorporated in Hong Kong with limited liability
“Existing Agreement”	the existing tenancy agreement dated 5 January 2005 between WRL as the landlord and City Super as the tenant in respect of the leasing of Shops 3001-3002 and 3103-3104, Level 3, Gateway
“Gateway”	Gateway Arcade, Harbour City, Kowloon, Hong Kong
“LCH”	Lane Crawford Holdings Limited, a company incorporated in Hong Kong with limited liability
“Other Relevant CS Tenancies”	various tenancies entered into by City Super and/or its subsidiary or affiliated companies with other unrelated landlords in respect of retail premises taken on lease by the former which are of size comparable to City Super’s supermarket at Gateway
“Other Relevant Group’s Tenancies”	various tenancies entered into by Wharf Group or Wheelock Group with other unrelated tenants in respect of retail premises owned by the former
“Outside Parties’ Leases”	certain existing lease agreements between landlords and tenants, which are unrelated to and independent of Wheelock, Wharf and City Super, for operation of supermarkets of size comparable to City Super’s supermarket at Gateway

“Platinum Securities”	Platinum Securities Company Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to Wheelock and Wharf
“Renewal Agreement”	the renewal tenancy agreement dated 10 December 2010 between WRL as the landlord and City Super as the tenant in respect of the leasing of Shops 3001-3002 and 3103-3104, Level 3, Gateway
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Transaction”	the entering into of the Renewal Agreement
“Wharf”	The Wharf (Holdings) Limited (stock code: 4), a 50.02%-owned subsidiary of Wheelock incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Wharf Group”	Wharf together with its subsidiaries
“Wheelock”	Wheelock and Company Limited (stock code: 20), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Wheelock Group”	Wheelock together with its subsidiaries
“WRL”	Wharf Realty Limited, a wholly-owned subsidiary of Wharf incorporated in Hong Kong with limited liability

By order of the directors of  
**WHELOCK AND COMPANY LIMITED**  
**Wilson W. S. Chan**  
Company Secretary

By order of the directors of  
**THE WHARF (HOLDINGS) LIMITED**  
**Wilson W. S. Chan**  
Company Secretary

Hong Kong, 10 December 2010