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CONTINUING CONNECTED TRANSACTIONS

Background

The Company had been engaging the NWSH Group to provide ongoing Operational Services to members of the Group. In anticipation of the completion of the Disposal, the services originally provided by the NWSH Group to the Group under the NWSH Master Agreement will be provided by the Services Group following the completion of the Disposal which is expected to take place by the end of June 2011.

Continuing Connected Transactions

It is anticipated that the Group will continue to engage the Services Group to provide the Operational Services to the Group and the scope of services that could be provided by members of the Service Group will be widened following the completion of the Disposal. In order to streamline and regulate the continuing connected transactions arising from the engagement of the Services Group (which will become associates of Mr. Doo upon completion of the Disposal) to provide the Operational Services to the Group, the Company and Mr. Doo entered into the Master Services Agreement on 19 May 2011 in relation to provision of the Operational Services by the relevant members of the Services Group to the relevant members of the Group after completion of the Disposal upon the terms contained therein.

Listing Rules Implications

Since Mr. Doo is an associate of certain Directors and hence a connected person of the Company under the Listing Rules. Each of the members of the Service Group, following completion of the Disposal, is an associate of Mr. Doo and hence a connected person of the Company. Accordingly, the entering into of the Master Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under the Listing Rules.

As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Annual Caps under the Master Services Agreement is more than 0.1% but less than 5%, the Master Services Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the Independent Shareholder's approval under Chapter 14A of the Listing Rules.

BACKGROUND

The Company had been engaging the NWSH Group to provide ongoing Operational Services to members of the Group. In anticipation of the completion of the Disposal, the services originally provided by the NWSH Group to the Group under the NWSH Master Agreement will be provided by the Services Group following the completion of the Disposal which is expected to take place by the end of June 2011.

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CONTINUING CONNECTED TRANSACTIONS UNDER THE MASTER SERVICES AGREEMENT

On 19 May 2011, the Company entered into the Master Services Agreement with Mr. Doo under the following principal terms and conditions:

Parties: (1) the Company
(2) Mr. Doo

Duration: Subject to the approval of the NWD Master Services Agreement and the continuing connected transactions contemplated thereunder (including the annual caps set for such transactions) by the independent shareholders of NWD at its extraordinary general meeting, the Master Services Agreement in relation to, the provision of the Operational Services by the relevant members of the Services Group to the relevant members of the Group, shall be for an initial term of three years commencing from 1 July 2011 and ending on 30 June 2014 (both days inclusive).

Subject to re-compliance with the reporting, announcement and Independent Shareholders’ approval requirements (to the extent applicable) under Chapter 14A of the Listing Rules and/or any other applicable requirements under the Listing Rules and/or any other relevant laws and regulations at the relevant time, the Master Services Agreement may be renewed for a further term of three years.

Nature of transactions: Provision of the Operational Services by members of the Services Group to members of the Group.

Pricing basis: As a general principle, the prices and terms with respect to the Operational Services to be provided by member(s) of the Services Group to member(s) of the Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and terms no less favourable to the Group than prices and terms available to or from independent third parties to the Group.

Provision of Operational Services

Under the Master Services Agreement, it was agreed between the Company and Mr. Doo that members of the Services Group may, and to the extent applicable in each case, engage the relevant members of the Services Group to provide the Operational Services to the relevant members of the Group during the term of the Master Services Agreement.

The Operational Services to be provided under the Master Services Agreement shall include the following services, and such other types of services as the Company and Mr. Doo may agree upon from time to time in writing:

- (a) contracting services – provision of services as main contractors, management contractors and project managers, building and general construction, civil engineering, building exterior and interior design, building repair, renovation, maintenance consultancy and other services, demolition, piling and foundation, building and property fitting out and decoration work, construction management and the supply of construction and building equipment and materials, electrical and mechanical engineering works, supply and installation of air-conditioning, heating and ventilation systems, fire services systems, plumbing and drainage systems, lift repair and maintenance services, electrical systems and system design and consultancy, computer aided drafting services and related services.
- (b) cleaning and landscaping services – general cleaning, vessel and vehicle cleaning, office and facility cleaning, recycling and environmental services, landscaping and plant maintenance, the supply of plants, laundry services and related services.
- (c) property management services – property management, property sales, vessel and vehicle sales and letting agency services, pre-marketing consultancy services, technical services, provision of car parking management and related services.

The above-mentioned engagement is subject to the following qualifications:

- (a) the engagement only applies to services required for businesses, projects and premises for which the relevant members of the Group have the right to select providers of the relevant Operational Services;
- (b) the engagement is not contrary to the terms of contracts governing the relevant businesses, projects or premises or any applicable laws, regulations or administrative directives promulgated by competent authorities to which the businesses, projects and/or premises of the relevant members of the Group or the Services Group may relate; and

- (c) in the event that the provider(s) of particular Operational Service(s) is/are to be selected through auction or tender, the engagement shall only become effective as and when the relevant member(s) of the Services Group has/have successfully bid for such auction or tender.

Operational Agreements

Pursuant to the Master Services Agreement, member(s) of the Services Group and member(s) of the Group shall, from time to time during the term of the Master Services Agreement, enter into separate Operational Agreement(s) in respect of the provision of the Operational Services provided that such separate agreement(s) shall always be subject to the terms of the Master Services Agreement. In this connection, the Company and Mr. Doo have agreed that:

- (a) as a general principle, the prices and terms of the Operational Agreements with respect to the Operational Services to be provided by member(s) of the Services Group to member(s) of the Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis and at prices and terms no less favourable to the Group than prices and terms available to or from independent third parties to the Group; and
- (b) the duration of each Operational Agreement shall be in compliance with the applicable laws and regulations in force from time to time and shall be negotiated on arm's length basis.

HISTORICAL AGGREGATE TRANSACTION VALUES

Assuming completion of the Disposal, the aggregate transaction values in respect of the provision of the Operational Services by members of the Services Group, which belong to NWSH Group prior to the completion of the Disposal, to members of the Group for the financial years ended 30 June 2009 and 2010 and the six months ended 31 December 2010 were as follows:

Category	Aggregate transaction values		
	Financial year ended 30/06/2009	Financial year ended 30/06/2010	Six months ended 31/12/2010
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Provision of Operational Services to members of the Group by members of the Services Group which belong to NWSH Group prior to the completion of the Disposal	36.68	79.90	39.46

MAXIMUM AGGREGATE ANNUAL VALUES

The Company expects that the Annual Caps in respect of the Continuing Connected Transactions will be as follows:

Category	Annual Cap		
	Financial years ending 30 June		
	2012	2013	2014
	(RMB	(RMB	(RMB
	million)	million)	million)
Provision of Operational Services by members of the Services Group to members of the Group	45.60	55.60	55.60

Each of the Annual Caps has been determined by reference to:

- (a) the historical annual or annualised amounts in respect of that category of the Operational Services provided by the relevant members of the Services Group to the relevant members of the Group during the past financial years; and
- (b) the projected annual or annualised amounts in respect of that category of Operational Services to be provided by the relevant members of the Services Group to the relevant members of the Group in the next three financial years.

The above-mentioned projected figures are determined basing on the relevant historical transaction amounts and future expansion of the stores owned by the Group and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Services Group and/or the Group.

The Directors (including the independent non-executive Directors) consider that the terms of the Master Services Agreement and the Annual Caps as stated above are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

REASONS FOR, AND BENEFITS OF, ENTERING INTO THE MASTER SERVICES AGREEMENT

The transactions contemplated under the Master Services Agreement are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group and the Service Group. The above-mentioned Operational Agreements will be agreed on arm's length basis, on normal commercial terms and comparable with terms available to or from independent third parties.

The Master Services Agreement is intended to streamline and regulate the continuing connected transactions between members of the Group and members of the Services Group following the completion of the Disposal. It provides a single basis on which the Company will comply with the reporting, announcement and annual review requirements in compliance with the Listing Rules and thereby reduce the administrative burden and costs on the Company to comply with such requirements in relation to the execution or renewal of the Operational Agreements in respect of the provision of the Operational Services.

The Directors (including the independent non-executive Directors) consider that the terms of the Master Services Agreement are fair and reasonable, and in the interests of the Company and its Shareholders as a whole, and that it is beneficial to the Company to enter into the Master Services Agreement.

INFORMATION REGARDING MR. DOO, THE SERVICES GROUP AND THE GROUP

Mr. Doo

Mr. Doo is an associate of certain Directors, i.e., Mr. Doo is the brother-in-law of Dr. Cheng Kar-shun, Henry and the uncle of Mr. Cheng Chi-kong, Adrian.

The Services Group

The Services Group is principally engaged in the provision of services including (a) laundry and landscaping; (b) security and guarding; (c) trading of building materials; (d) insurance brokerage; and (e) property management as at the date of this announcement. Following completion of the Disposal, the businesses of the enlarged Services Group will be further expanded to include the provision of such services including cleaning and electrical and mechanical engineering.

The Group

The Group is principally engaged in the operation of department stores in the PRC.

APPROVAL BY THE BOARD OF DIRECTORS OF THE COMPANY

Mr. Doo is an associate of Dr. Cheng Kar-shun, Henry and Mr. Cheng Chi-kong, Adrian. Both of Dr. Cheng Kar-shun, Henry and Mr. Cheng Chi-kong Adrian are Directors and Dr. Cheng Kar-shun, Henry holds directorships in certain companies controlled by the Company. None of the Directors has a material interest in the transactions contemplated under the Master Services Agreement. Dr. Cheng Kar-shun, Henry and Mr. Cheng Chi-kong Adrian have voluntarily abstained from voting on the relevant board resolutions to approve the Master Services Agreement.

LISTING RULES IMPLICATIONS

Since Mr. Doo is an associate of certain Directors and hence a connected person of the Company under the Listing Rules. Each of the members of the Service Group, following completion of the Disposal, is an associate of Mr. Doo and hence a connected person of the Company. Accordingly, the entering into of the Master Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under the Listing Rules.

As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Annual Caps under the Master Services Agreement is more than 0.1% but less than 5%, the Master Services Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the Independent Shareholder's approval under Chapter 14A of the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the meanings set out in this announcement:

“Annual Caps”	the annual cap amounts in respect of the Continuing Connected Transactions for each of the financial years ending 30 June 2012, 2013 and 2014, the particulars of which are set out in the section headed “MAXIMUM AGGREGATE ANNUAL VALUES” in this announcement
“associates”	has the meaning ascribed to it in 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
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Master Services Agreement upon completion of the Disposal
“Director(s)”	the director(s) of the Company
“Disposal”	management buyout of certain subsidiaries of NWSH, details of which were set out in the joint announcement of NWD and NWSH dated 11 June 2010 and the circular of NWSH dated 2 July 2010
“Group”	the Company and/or its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Shareholders”	Shareholders that are not required to abstain from voting at the general meeting of the Company to approve the Master Services Agreement and the Continuing Connected Transactions contemplated thereunder (including the Annual Caps)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Services Agreement”	the master services agreement entered into between the Company and Mr. Doo on 19 May 2011 in relation to the provision of the Operational Services to streamline and regulate the Continuing Connected Transactions between members of the Group and members of the Services Group arising after the completion of the Disposal
“Mr. Doo”	Mr. Doo Wai-hoi, William, an associate of certain Directors, the details of whom are set out in the section headed “INFORMATION REGARDING MR. DOO, THE SERVICES GROUP AND THE GROUP” in this announcement
“NWD”	New World Development Company Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the main board of the Stock Exchange and which holds an approximately 72.29% attributable interest in the Company as at the date of this announcement “
“NWD Group”	NWD and/or its subsidiaries from time to time
“NWD Master Services Agreement”	the master services agreement entered into between NWD and Mr. Doo on 19 May 2011 in relation to the provision of operational and rental services referred to therein to streamline and regulate the continuing connected transactions between members of the NWD Group and members of the Services Group arising after completion of the Disposal
“NWSH”	NWS Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange and beneficially owned as to approximately 59.14% by NWD as at the date of this announcement
“NWSH Group”	NWSH and/or its subsidiaries from time to time

“NWSH Master Agreement”	the agreement entered into between NWSH and the Company dated 22 May 2009 in respect of the provision of certain ongoing services by the NWSH Group to the Group which was approved by the independent Shareholders at an extraordinary general meeting of the Company duly held on 29 June 2009, details of which were set out in the joint announcement of the Company and NWD dated 22 May 2009 and in the circular of the Company dated 10 June 2009
“Operational Agreements”	the individual agreements in respect of the provision of any of the Operational Services which may from time to time be entered into between a member of the Services Group and a member of the Group after completion of the Disposal pursuant to the Master Services Agreement, and “Operational Agreement” means any of them
“Operational Services”	contracting services, cleaning and landscaping services, property management services and such other types of services as the parties may agree upon from time to time in writing, to be provided by members of the Services Group to members of the Group, the initial scope of which is set out in the section headed “PROVISION OF OPERATIONAL SERVICES” of this announcement
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Services Group”	Mr. Doo and any company in the equity capital of which Mr. Doo is or will be directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary
“Share(s)”	the ordinary share(s) in the issued share capital of the Company with a par value of HK\$0.10 each
“Shareholders”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	any entity which falls within the definition of “subsidiary” under the Listing Rules or the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)

“Takeovers Code” the Code on Takeovers and Mergers approved by the Securities and Futures Commission as amended from time to time

“%” per cent.

By order of the Board
Wu Yuk-kwai, Catherine
Company Secretary

Hong Kong, 19 May 2011

As at the date of this announcement, the non-executive Directors are Dr. Cheng Kar-shun, Henry and Mr. Au Tak-cheong; the executive Directors are Mr. Cheng Chi-kong, Adrian, Mr. Cheung Fai-yet, Philip, Mr. Lin Tsai-tan, David, Mr. Wong Kwok-kan, Kenneth and Ms. Ngan Man-ying, Lynda; and the independent non-executive Directors are Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai.