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WHEELOCK AND COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
Stock Code: 20

CONTINUING CONNECTED TRANSACTION

On 24 February 2017, a wholly-owned subsidiary of Wharf as the landlord and City Super as the tenant entered into a renewal tenancy agreement in respect of Shops 3001 and 3103-3104, Level 3, Gateway Arcade, Harbour City, Kowloon, Hong Kong.

Wharf is a 61.67%-owned subsidiary of Wheelock and City Super is 39.08% effectively owned by LCJG Limited which in turn is indirectly wholly-owned by a trust the settlor of which is Mr. Peter K. C. Woo, being a substantial shareholder of Wheelock, and also the father of Mr. Douglas C. K. Woo who in turn is the Chairman of Wheelock. Consequently, City Super is regarded as a connected person of Wheelock (but not of Wharf) within the meaning of the Listing Rules and therefore, the entry into of the abovementioned agreement constitutes a continuing connected transaction for Wheelock.

Given its size or value, the Transaction is exempt from shareholders' approval requirement, but is subject to requirements regarding reporting and announcement etc. under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, an independent financial adviser has been engaged 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 confirmed that it is the normal business practice for agreements of this type to be of such duration.

INTRODUCTION

Reference is made to the continuing connected transaction who was previously disclosed in an announcement dated 10 December 2010 issued jointly by Wheelock and Wharf relating to the Previous Agreement, entered into between a wholly-owned subsidiary of Wharf, namely, WRL, as the landlord and City Super as the tenant for the leasing of Shops 3001-3002 and 3103-3104, Level 3, Gateway. The Previous Agreement expired on 14 December 2016 and was extended for a short period from 15 December 2016 to 28 February 2017 on the same terms and conditions as the Previous Agreement. On 24 February 2017, WRL and City Super entered into the Renewal Agreement.

DETAILS OF THE RENEWAL AGREEMENT

- Signing Date : 24 February 2017
- Parties : WRL as the landlord and City Super as the tenant
- Term : Six years from 1 March 2017 to 28 February 2023
- Premises : Shops 3001 and 3103-3104, Level 3, Gateway
- Lettable Area : Approximately 40,789 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 ending 31 December 2023 are as follows:

<u>Financial Year ending 31 December</u>	<u>Annual Rents (HK\$ Million)</u>	
2017	28.6)
2018	36.3)
2019	38.7)
2020	41.2)
2021	43.6)
2022	46.1)
2023	7.7)

OR, turnover rent calculated by reference to 7.5% of gross sales, whichever is higher

The abovementioned Annual Rents and the turnover rent percentage 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 regarding comparable premises available from independent third parties.

ANNUAL CAP AMOUNTS

For reference, the annual rental cap amounts under the Previous Agreement are HK\$60.36 million, HK\$60.36 million, HK\$64.39 million, HK\$64.39 million, HK\$67.07 million and HK\$67.07 million in respect of the six financial years ending 31 December 2016 respectively, and the actual amounts of the relevant annual rents paid by City Super to WRL under the Previous Agreement are HK\$41.11 million, HK\$42.26 million, HK\$44.00 million, HK\$42.60 million, HK\$42.46 million and HK\$37.99 million respectively in respect of the six financial years ended 31 December 2016.

As estimated by the parties, the base rent or turnover rent, whichever applicable, receivable by WRL under the Renewal Agreement for the period from 1 January 2023 to 28 February 2023 (i.e. the last two months of the Renewal Agreement) will be below the *de minimis* level under Rule 14A.76(1) of the Listing Rules. However, for the period from 1 March 2017 to 31 December 2022, it is estimated that the annual rent(s) under the Renewal Agreement receivable by WRL for one or more of the six financial years ending 31 December 2022 would likely exceed the *de minimis* level under Rule 14A.76 of the Listing Rules. Therefore, the parties have agreed to adopt an annual cap amount, as required by Rule 14A.53 of the Listing Rules, for the base rent or turnover rent, whichever applicable, under the Renewal Agreement for each of the six financial years ending 31 December 2022. 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 Previous 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>
2017	68.00
2018	73.00
2019	78.00
2020	83.00
2021	88.00
2022	93.00

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. 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 Wheelock 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 Wheelock Group, rental income is an important recurrent income source. The directors of Wheelock believe that the Transaction is necessary for the continuous growth and operations of, and will generate recurrent rental income for, Wheelock Group, and is beneficial to Wheelock and its 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.

REGULATORY ASPECTS

Wharf is a 61.67%-owned subsidiary of Wheelock; and City Super is a wholly-owned subsidiary of a company which is 39.08%-owned by LCJG Limited which in turn is indirectly wholly-owned by a trust the settlor of which is Mr. Peter K. C. Woo, being a substantial shareholder of Wheelock, and also the father of Mr. Douglas C. K. Woo who in turn is the Chairman of Wheelock. Consequently, City Super is regarded as a connected person of Wheelock (but not of Wharf) within the meaning of the Listing Rules and therefore, the Transaction constitutes a continuing connected transaction for Wheelock.

The duration of the Renewal Agreement exceeds the maximum period of three years as prescribed in Rule 14A.52 of the Listing Rules. On the basis of information obtained by Wheelock 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 Group 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 Previous Agreement, between Wharf Group and City Super for the CitySuper store at Gateway had 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 Wharf Group. Furthermore, City Super, though technically a connected person of Wheelock, 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 Group and its substantial shareholder, namely, Mr. Peter K. C. Woo. That being the case, it is normally not feasible to secure the agreement of City Super to a term of not more than three years for renewal of the relevant tenancy.

Since one or more of the applicable percentage ratios for the purpose of 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.76 of the Listing Rules, while all such ratios are below the 5% threshold, the Transaction is exempt from shareholders' approval requirement, but is subject to requirements regarding reporting and announcement etc. under Chapter 14A of the Listing Rules.

VIEW FROM INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 14A.52 of the Listing Rules, Platinum Securities has been engaged by Wheelock as its independent financial adviser to give advice and explanation on why a longer period (more than three years) for the Renewal Agreement is required and to confirm that it is the normal business practice for agreements of this type to be of such duration.

Platinum Securities has reviewed, among other things, the Renewal Agreement and also the Previous 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. Renewal Agreement	6 years
2. Previous Agreement	6 years
3. Other Relevant Group's Tenancies	6 years to 7 years
4. Other Relevant CS Tenancies	5 years to 6 years
5. Outside Parties' Leases	6 years to 8 years

As shown in the above table, the duration of the respective tenancy agreements which have been reviewed generally exceeds the three-year period as prescribed in Rule 14A.52 of the Listing Rules and ranges from 5 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 confirms that it is the normal business practice for agreements of this type to be of such duration.

GENERAL

The directors (except Mr. Douglas C. K. Woo, being the only director regarded as having a material interest in the Transaction by reason of Mr. Peter K. C. Woo being his father, who abstained from participating in the approval of the relevant board resolutions of Wheelock; no other director has any material interest in the Transaction), including independent non-executive directors, of Wheelock are of the view that the Renewal Agreement and the transactions contemplated thereunder are on normal commercial terms, and the terms of the Renewal Agreement (including the Annual Cap Amounts) are fair and reasonable and in the interests of Wheelock and its shareholders as a whole. Furthermore, the Renewal Agreement

was entered into in the ordinary and usual course of business of Wheelock Group after due negotiations on an arm's length basis with reference to the prevailing market conditions.

The principal business activities of Wheelock 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. Douglas C. K. Woo, Mr. Stephen T. H. Ng, Mr. Stewart C. K. Leung, Mr. Paul Y. C. Tsui, Mr. Ricky K. Y. Wong and Mrs. Mignonne Cheng, together with seven independent non-executive directors, namely, Mr. Tak Hay Chau, Mr. Winston K. W. Leong, Mr. Alan H. Smith, Mr. Richard Y. S. Tang, Mr. Kenneth W. S. Ting, Ms. Nancy S. L. Tse and Mr. Glenn S. Yee.

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 Wheelock ending 31 December 2022 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
“Gateway”	Gateway Arcade, Harbour City, Kowloon, Hong Kong
“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 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 Group 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
“Previous Agreement”	the previous 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
“Renewal Agreement”	the renewal tenancy agreement dated 24 February 2017 between WRL as the landlord and City Super as the tenant in respect of the leasing of Shops 3001 and 3103-3104, Level 3, Gateway
“SFO”	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 and the transactions contemplated thereunder
“Wharf”	The Wharf (Holdings) Limited (stock code: 4), a 61.67%-owned subsidiary of Wheelock incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“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
WHEELOCK AND COMPANY LIMITED
Wilson W. S. Chan
Company Secretary

Hong Kong, 24 February 2017