

27 June 2017

To the NWDSC Independent Board Committee

Dear Sir or Madam,

**PROPOSED PRIVATISATION BY WAY OF
VOLUNTARY CONDITIONAL CASH OFFER
BY UBS AG HONG KONG BRANCH ON BEHALF OF
NEW WORLD DEVELOPMENT COMPANY LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
NEW WORLD DEPARTMENT STORE CHINA LIMITED
(OTHER THAN THOSE HELD BY
NEW WORLD DEVELOPMENT COMPANY LIMITED)**

INTRODUCTION

We refer to our engagement as the NWDSC Independent Financial Adviser to the NWDSC Independent Board Committee in respect of the Offer, details of which are set out in this composite offer and response document jointly issued by the Offeror and NWDSC (the “**Composite Document**”) dated 27 June 2017, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in this Composite Document unless the context otherwise requires.

As set out in this Composite Document, UBS, on behalf of the Offeror, is making a voluntary conditional cash offer to acquire all of the Offer Shares. The Offer Price is HK\$2.00 for each Offer Share. As at the Joint Announcement Date and as at the Latest Practicable Date, no NWDSC Option has been granted or was outstanding under the NWDSC Share Option Scheme.

If the Offeror, before the close of the Offer, has received valid acceptances in respect of not less than 90% of the Offer Shares and not less than 90% of the Disinterested NWDSC Shares, the Offeror intends to privatise NWDSC by exercising its right to compulsorily acquire those Offer Shares not acquired by the Offeror under the Offer. If the Offeror exercises such right and completes the compulsory acquisition, NWDSC will become a direct wholly owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the NWDSC Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. If the Offer Shares validly tendered for acceptance under the Offer

are less than 90% of the Offer Shares or less than 90% of the Disinterested NWDSC Shares, the Offer will not become unconditional and will lapse and NWDSC Shares will remain listed on the Stock Exchange.

INDEPENDENCE DECLARATION

Ballas Capital Limited is not aware of any relationships or interests between Ballas Capital Limited and NWDSC or any other parties that could be reasonably regarded as a hindrance to its independence to act as the NWDSC Independent Financial Adviser to the NWDSC Independent Board Committee in respect of the Offer.

NWDSC INDEPENDENT BOARD COMMITTEE

The NWDSC Independent Board Committee, comprising all independent non-executive NWDSC Directors, namely Mr. Cheong Ying-Chew, Henry, Mr. Chan Yiu-Tong, Ivan, Mr. Tong Hang-Chan, Peter and Mr. Yu Chun-Fai, has been established to make recommendation to the Independent NWDSC Shareholders as to whether the terms and conditions of the Offer are fair and reasonable and as to acceptance of the Offer. Pursuant to Rule 2.8 of the Takeovers Code, members of the NWDSC Independent Board Committee are all non-executive directors who have no direct or indirect interest in the Offer. Dr. Cheng Kar-Shun, Henry and Mr. Au Tak-Cheong, who are non-executive NWDSC Directors, are also directors of the Offeror. Ms. Ngan Man-Ying, Lynda, being the remaining non-executive director of NWDSC, is also an employee of the Offeror. As such, they are not considered independent for the purpose of advising the Independent NWDSC Shareholders in respect of the Offer and therefore not members of the NWDSC Independent Board Committee.

We are appointed as the NWDSC Independent Financial Adviser to advise the NWDSC Independent Board Committee as to (i) whether the Offer is on normal commercial terms and is fair and reasonable so far as the Independent NWDSC Shareholders are concerned; and (ii) whether the Offer should be accepted. The appointment of the NWDSC Independent Financial Adviser has been approved by the NWDSC Independent Board Committee.

As at the Latest Practicable Date, we were independent from and not connected with NWDSC, the Offeror, their respective substantial shareholders and any party acting, or presumed to be acting, in concert with any of them, and accordingly, are qualified to give independent advice to the NWDSC Independent Board Committee regarding the Offer. Apart from the normal advisory fee payable to us in connection with our appointment as the NWDSC Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from NWDSC or the Offeror or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion, we have relied upon the information, facts and representations contained in this Composite Document and those supplied or made available to us by NWDSC, the NWDSC Directors and the representatives of NWDSC for which they are solely and wholly responsible, and to their information and knowledge, were true, accurate and complete in all respects at the time they were given or made and continue to be true, accurate and valid as at the Latest Practicable Date and can be relied upon. We have assumed that all statements and information supplied, and the opinions and representations made or provided to us by the NWDSC Directors and the representatives of NWDSC and those contained in this Composite Document have been reasonably made after due and careful enquiry.

As stated in Appendix V to this Composite Document, the NWDSC Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror Group but excluding the NWDSC Group for this purpose), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than the opinion expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

As stated in Appendix IV to this Composite Document, the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the NWDSC Group), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than the opinion expressed by the NWDSC Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on accuracy of the information contained in this Composite Document and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by NWDSC, the NWDSC Directors and the representatives of NWDSC or to believe that material information has been withheld or omitted from the information provided to us or referred to in the available documents. We have not, however, conducted any independent verification of the information provided, nor have we conducted any independent investigation into the business or affairs or future prospects of NWDSC, the Offeror or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice in respect of the Offer, we have considered the following principal factors and reasons:

1. Background of the Offer and benefits of the Offer to NWDSC and the Independent NWDSC Shareholders

On 6 June 2017, the Offeror Board and the NWDSC Board jointly announced that UBS, on behalf of the Offeror, intended to make a voluntary conditional cash offer to acquire all of the Offer Shares. As at the Joint Announcement Date and as at the Latest Practicable Date, no NWDSC Option has been granted or is outstanding under the NWDSC Share Option Scheme. The Offer Price is HK\$2.00 in cash for each Offer Share, and the Offer is being extended to all NWDSC Shareholders except for the Offeror. As at the Latest Practicable Date, the Offeror held approximately 72.29% of the total number of issued NWDSC Shares.

Subject to compliance with the relevant requirements under section 88 of the Cayman Islands Companies Law, if the Offeror, before the close of the Offer, has received valid acceptances in respect of not less than 90% of the Offer Shares and not less than 90% of the Disinterested NWDSC Shares, the Offeror intends to privatise NWDSC by exercising its right to compulsorily acquire those Offer Shares not acquired by the Offeror under the Offer. If the Offeror exercises such right and completes the compulsory acquisition, NWDSC will become a direct wholly owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the NWDSC Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. If the Offer Shares validly tendered for acceptance under the Offer are less than 90% of the Offer Shares or less than 90% of the Disinterested NWDSC Shares, the Offer will not become unconditional and will lapse and NWDSC Shares will remain listed on the Stock Exchange.

As disclosed in the letter from UBS of this Composite Document (the “**Letter from UBS**”), as the PRC retailing space has experienced unprecedented challenges in recent years, particularly from the rapidly growing e-Commerce platforms, traditional brick-and-mortar retailers such as the NWDSC Group has suffered a significant reduction of foot traffic as a result of intensified competition. In light of this industry’s headwind, necessary changes will be needed in order for NWDSC to bolster long-term competitiveness. Following the implementation of the Offer and the potential privatisation, the Offeror and NWDSC can make more timely strategic decisions as NWDSC becomes a private company, while not being distracted or pressurised to deliver short and medium term performance as a publicly listed company. Furthermore, after the privatisation, NWDSC will have significantly less listing-related and compliance costs, and will also be able to fund its projects with more flexibility through a centralised platform under the Offeror Group. As for the benefits to the Independent NWDSC Shareholders, the Offer Price represents an opportunity for them to monetise their investments at an attractive premium to the historical trading price per NWDSC Share in view of the aforementioned industry headwinds

and uncertainties. Furthermore, NWDSC has always been an integral part of the Offeror Group and the directors of the Offeror are of the view that it is unlikely that another independent third party will acquire the Offer Shares at a more attractive price.

2. Information on the NWDSC Group

2.1 Principal businesses of the NWDSC Group

The NWDSC Group is principally engaged in the operation of department store and other related businesses, and property investment operations in the PRC. NWDSC is one of the largest owners and operators of department stores in the PRC. For the two years ended 30 June 2015 and 2016, and the six months ended 31 December 2016, the NWDSC Group's income was mainly derived from commission income from concessionaire sales, sales of goods for direct sales and rental income from tenants.

2.2 Historical financial performance of the NWDSC Group

The unaudited consolidated financial results of NWDSC Group which were extracted from the interim report of NWDSC for the six months ended 31 December 2016 (“1H FY2017 Interim Report”) and the audited consolidated financial results of the NWDSC Group which were extracted from the annual report of NWDSC for the year ended 30 June 2016 (“FY2016 Annual Report”) are summarised as follows:

	For the six months ended 31 December		For the year ended 30 June	
	2015 ("1H FY2016") (unaudited) HK\$'000	2016 ("1H FY2017") (unaudited) HK\$'000	2015 ("FY2015") (audited) HK\$'000	2016 ("FY2016") (audited) HK\$'000
— Commission income from concessionaire sales	1,060,105	890,069	2,441,660	1,977,219
— Sales of goods — direct sales	514,739	551,030	895,410	1,002,932
— Management and consultancy fees	34,683	7,784	53,565	40,288
— Rental income	324,763	332,568	638,716	639,457
Total revenue	<u>1,934,290</u>	<u>1,781,451</u>	<u>4,029,351</u>	<u>3,659,896</u>
Operating profit	137,658	156,190	230,862	209,700
Profit before income tax	156,351	159,482	256,893	238,779
Income tax expense	(96,541)	(67,024)	(187,152)	(193,381)
Profit for the year/period	59,810	92,458	69,741	45,398
Attributable to:				
— NWDSC Shareholders	59,810	92,782	69,741	45,643
— Non-controlling interests	—	(324)	—	(245)

Comparison of historical results between years/periods

FY2015 vs FY2016

As shown in the table above, revenue from sales of goods for direct sales and commission income from concessionaire sales has been the main source of income, which represented approximately 82.8% and 81.4% of the NWDSC Group's revenue in FY2015 and FY2016, respectively.

For FY2016, the NWDSC Group recorded revenue of approximately HK\$3,659.9 million, representing a decrease of approximately 9.2% as compared to that of approximately HK\$4,029.4 million in FY2015.

The commission income from concessionaire sales of the NWDSC Group for FY2016 was approximately HK\$1,977.2 million, which represented a decrease of approximately 19.0% as compared to that of approximately HK\$2,441.7 million in FY2015. As noted from the FY2016 Annual Report, such decrease was mainly attributable to the (i) decrease in gross revenue from concessionaire sales; and (ii) decrease in commission income rate. The decrease in commission income rate was due to proportionate increase in sales of gold and jewelry as well as sportswear which had lower margins.

The sales of goods for direct sales of the NWDSC Group for FY2016 was approximately HK\$1,002.9 million, which represented an increase of approximately 12.0% as compared to that of approximately HK\$895.4 million in FY2015. As noted from the FY2016 Annual Report, such increase was mainly due to the inclusion of the distribution business of high-end fashion brands since January 2015.

The management and consultancy fees of the NWDSC Group for FY2016 was approximately HK\$40.3 million, which represented a decrease of 24.8% as compared to that of approximately HK\$53.6 million in FY2015. As noted from the FY2016 Annual Report, such decrease was primarily due to drop in the NWDSC Group's recognition of fees for the provision of consultancy services for new projects in FY2016.

The rental income of the NWDSC Group for FY2016 was approximately HK\$639.5 million, which represented a slightly increase of approximately 0.1% as compared to that of approximately HK\$638.7 million in FY2015. As noted from the FY2016 Annual Report, such increase was mainly due to the expanded rentable area and improved tenant mix, which was partially offset by the reduced rentable area as a result of the closure of Wuhan New World Department Store — Qiaokou Branch Store and Beijing Shishang New World Department Store in November 2014 and December 2015 respectively and the downsizing of Shenyang New World Department Store — Jianqiao Road Branch Store in March 2015.

For FY2016, the NWDSC Group recorded approximately HK\$209.7 million in operating profit, which represented a decrease of approximately 9.2% as compared to that of approximately HK\$230.9 million in FY2015.

For FY2016, the NWDSC Group recorded approximately HK\$45.6 million in profit attributable to NWDSC Shareholders, which represented a decrease of approximately 34.6% as compared to that of approximately HK\$69.7 million in FY2015. Such decrease was mainly due to the decrease in commission income from concessionaire sales during the year as explained above.

1HFY2016 vs 1HFY2017

Similar to FY2015 and FY2016, the NWDSC Group's revenue from sales of goods for direct sales and commission income from concessionaire sales has remained to be the main source of income, which represented approximately 81.4% and 80.9% of the NWDSC Group's revenue in 1HFY2016 and 1HFY2017, respectively.

For 1HFY2017, the NWDSC Group recorded revenue of approximately HK\$1,781.5 million, representing a decrease of approximately 7.9% as compared to that of approximately HK\$1,934.3 million in 1HFY2016.

The commission income from concessionaire sales of the NWDSC Group for 1HFY2017 was approximately HK\$890.1 million, which represented a decrease of approximately 16.0% as compared to that of approximately HK\$1,060.1 million in 1HFY2016. As noted from the 1HFY2017 Interim Report, such decrease was mainly attributable to the decrease in gross revenue from concessionaire sales.

The sales of goods for direct sales of the NWDSC Group for 1HFY2017 was approximately HK\$551.0 million, which represented an increase of approximately 7.1% as compared to that of approximately HK\$514.7 million in 1HFY2016.

The management and consultancy fees of the NWDSC Group for 1HFY2017 was approximately HK\$7.8 million, which represented a decrease of 77.6% as compared to that of approximately HK\$34.7 million in 1HFY2016. As noted from the 1HFY2017 Interim Report, such decrease was primarily due to drop in the NWDSC Group's recognition of fees for the provision of consultancy services for new projects for the six months ended 31 December 2016.

The rental income of the NWDSC Group for 1HFY2017 was approximately HK\$332.6 million, which represented a slightly increase of approximately 2.4% as compared to that of approximately HK\$324.8 million in 1HFY2016. As noted from the 1HFY2017 Interim Report, such increase was mainly due to the expanded rentable area and improved tenant mix for

the six months ended 31 December 2016, which was partially offset by the reduced rentable area as a result of the closure of Beijing Shishang New World Department Store and Ningbo New World Trendy Department Store in December 2015 and June 2016 respectively.

For 1HFY2017, the NWDSC Group recorded approximately HK\$156.2 million in operating profit, which represented an increase of approximately 13.5% as compared to that of approximately HK\$137.7 million in 1HFY2016.

For 1HFY2017, the NWDSC Group recorded approximately HK\$92.8 million in profit attributable to NWDSC Shareholders, which represented an increase of approximately 55.1% as compared to that of approximately HK\$59.8 million in 1HFY2016. Such increase in profit, despite a decrease in revenue during the period, was mainly due to lowered operating expenses and tax expenses during 1HFY2017 as compared to 1HFY2016.

2.3 Financial position of the NWDSC Group

Set out below is the summary of the unaudited consolidated assets and liabilities of the NWDSC Group as at 31 December 2016, details of which are set out in NWDSC's 1HFY2017 Interim Report for the period:

	As at 31 December 2016 (unaudited) HK\$'000	% of total assets
Non-current Assets		
— Property, plant and equipment	1,321,686	11.1%
— Investment properties	4,381,642	36.8%
— Land use rights	620,975	5.2%
— Intangible assets	1,670,494	14.0%
— Interests in associated companies	890	0.0%
— Other non-current assets	601,063	5.0%
— Prepayments, deposits and other receivables	296,679	2.5%
— Financial asset at fair value through other comprehensive income	17,702	0.1%
— Financial asset at fair value through profit or loss	8,694	0.1%
— Deferred income tax assets	141,218	1.2%
	<u>9,061,043</u>	<u>76.0%</u>

	As at 31 December 2016 (unaudited) HK\$'000	% of total assets
Current Assets		
— Inventories	229,272	1.9%
— Debtors	152,168	1.3%
— Prepayments, deposits and other receivables	595,496	5.0%
— Amounts due from fellow subsidiaries	8,102	0.1%
— Amounts due from related companies	1	0.0%
— Financial asset at fair value through profit or loss	1,170	0.0%
— Fixed deposits	21,108	0.2%
— Cash and cash equivalents	<u>1,856,475</u>	<u>15.5%</u>
	<u>2,863,792</u>	<u>24.0%</u>
Total assets	<u>11,924,835</u>	<u>100.0%</u>
		% of total liabilities
Current Liabilities		
— Creditors	2,280,236	36.8%
— Accruals and other payables	1,254,070	20.2%
— Amounts due to fellow subsidiaries	4,353	0.1%
— Amounts due to related companies	38,829	0.6%
— Amounts due to associated companies	398	0.0%
— Obligation under finance leases	16	0.0%
— Borrowings	938,054	15.2%
— Tax payable	<u>94,375</u>	<u>1.5%</u>
	<u>4,610,331</u>	<u>74.4%</u>

	As at 31 December 2016 (unaudited) HK\$'000	% of total liabilities
Non-current Liabilities		
— Accruals and other payables	492,443	7.9%
— Obligation under finance leases	39	0.0%
— Borrowings	290,503	4.7%
— Deferred income tax liabilities	<u>805,553</u>	<u>13.0%</u>
	<u>1,588,538</u>	<u>25.6%</u>
Total liabilities	<u>6,198,869</u>	<u>100.0%</u>
Net assets	<u>5,725,966</u>	
Equity		
— Shareholders' funds	5,726,018	
— Non-controlling interests	<u>(52)</u>	
	<u>5,725,966</u>	

As at 31 December 2016, the NWDSC Group's total assets amounted to approximately HK\$11,924.8 million, mainly comprising (i) investment properties of approximately 36.8%; (ii) cash and cash equivalents of approximately 15.5%; (iii) intangible assets of approximately 14.0%; and (iv) property, plant and equipment of approximately 11.1%. Investment properties are mainly related to the NWDSC Group's property investment operation in the PRC, while owner-occupation/operation properties for the department store operation are included in the NWDSC Group's land use rights and property, plant and equipment. Intangible assets primarily comprise of goodwill relating to previous business combinations.

As at 31 December 2016, the NWDSC Group's total liabilities amounted to approximately HK\$6,198.9 million, mainly comprising (i) creditors of approximately 36.8%; (ii) accruals and other payables of approximately 28.1%; (iii) borrowings of approximately 19.9%; and (iv) deferred income tax liabilities of approximately 13.0%.

As at 31 December 2016, the NWDSC Group recorded net assets attributable to NWDSC Shareholders of approximately HK\$5,726.0 million.

2.4 Valuation of the NWDSC Group's property interests and adjusted net tangible asset value

In respect of the NWDSC Group's property interests which are recognised as assets in the 1HFY2017 Interim Report, which comprise investment properties, land use rights, buildings and leasehold improvements, and prepayment for a property contracted to be acquired (collectively, the "**Property Interests**"), the valuation of the Property Interests conducted by Jones Lang LaSalle as at 31 May 2017 are set out in the property valuation report contained in Appendix III to this Composite Document (the "**Property Valuation Report**").

Based on our discussion with Jones Lang LaSalle, we note that in performing the valuation of the Property Interests, Jones Lang LaSalle has adopted the income approach by taking into account the net rental income of the property derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the fair value at an appropriate capitalisation rate. Where appropriate, reference has also been made to the comparable sale transactions as available in the relevant market. We have been advised by Jones Lang LaSalle that given the particulars of the Property Interests, the above valuation methodologies represent widely accepted methodologies in arriving at the property valuation. Furthermore, we have also discussed with Jones Lang LaSalle to understand the assumptions which they have taken into consideration when performing the valuation of the Property Interests (details of the assumptions are set out in the Property Valuation Report). Jones Lang LaSalle also advised that the valuation of the Property Interests was carried out in accordance with all requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules; Rule 11 of the Takeovers Code; the RICS Valuation-Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council. Based on the above, we believe that the above valuation approach adopted by Jones Lang LaSalle in performing the valuation of the Property Interests and the assumptions taken into consideration by Jones Lang LaSalle are appropriate.

For the purpose of our analysis on the Offer and to assess the fairness and reasonableness of the Offer Price, in addition to using other important metrics such as historical share price, trading liquidity and multiples of comparable companies/transactions, details of which are elaborated in sections below, we have also used the NWDSC Group's adjusted unaudited consolidated net tangible asset value attributable to NWDSC Shareholders as at 31 December 2016 (the "**Adjusted NTAV**") by adjusting for (i) the total market valuation of properties as per the Property Valuation Report subtract the sum of (a) the NWDSC Group's Property Interests as at 31 December 2016; and (b) outstanding payment for a property contracted to be acquired by the NWDSC Group; (ii) the estimated deferred income tax to be paid on the revaluation surplus; and (iii) the intangible

assets as at 31 December 2016. For the avoidance of doubt, we did not take into account intangible assets in our analysis as the NWDSC Group's intangible assets mostly comprise goodwill arisen from previous business combinations. In addition, as advised by NWDSC, there were no material disposal of properties between 31 December 2016 (i.e. the date of the latest interim report) and 31 May 2017 (i.e. the date of the Property Valuation Report).

The Adjusted NTAV is calculated by:

	<i>HK\$'000</i>
The NWDSC Group's unaudited consolidated net asset value attributable to NWDSC Shareholders as at 31 December 2016	5,726,018
Plus: total market valuation of properties as per the Property Valuation Report (using an exchange rate of RMB0.88 for every HK\$1, the total market valuation in HK\$ equals to RMB5,936,399,000/0.88 = HK\$6,745,907,955)	6,745,908
Subtract: the sum of (a) NWDSC Group's Property Interests as at 31 December 2016; and (b) outstanding payment for a property contracted to be acquired by the NWDSC Group (i.e. property no. 9 in the Property Valuation Report)	(6,283,072) ^{Note}
Subtract: estimated deferred income tax to be paid on the revaluation surplus (using the PRC corporate income tax rate of 25%, the deferred income tax to be paid on the revaluation surplus is estimated to be 0.25* (6,745,908 – 6,283,072) = 115,709)	<u>(115,709)</u>
The Adjusted NAV	6,073,145
Subtract: the NWDSC Group's intangible assets as at 31 December 2016	<u>(1,670,494)</u>
The Adjusted NTAV	<u>4,402,651</u>

Note: This represents the NWDSC Group's Property Interests as at 31 December 2016 of approximately HK\$6,223,178,000 plus approximately HK\$59,894,000, being the outstanding payment for a property contracted to be acquired by the NWDSC Group. The outstanding payment is being added on to ensure consistency as the Property Valuation Report takes into account 100% of the property interests on a property contracted to be acquired by the NWDSC Group.