PARKSON 百盛

PARKSON RETAIL GROUP LIMITED
百盛商業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3368)

CONTINUING CONNECTED TRANSACTION

The Board is pleased to announce that on 14 June 2007, Guizhou Parkson, an indirect subsidiary of the Company, entered into the Tenancy Agreement with Guizhou Shenqi Commercial for the lease of the Premises to operate a branch as an extension of Guizhou Parkson's operation in Guiyang City, Guizhou.

Guizhou Shenqi Commercial is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Accordingly, the Tenancy Agreement constitutes a continuing connected transaction for the Company under the Listing Rules. As the applicable percentage ratios represented by the annual cap (as set out herein) in respect of the Tenancy Agreement are equal to or more than 0.1% but less than 2.5%, the transaction is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements under the Listing Rules.

The Board is pleased to announce that on 14 June 2007, Guizhou Parkson, an indirect subsidiary of the Company, entered into the Tenancy Agreement with Guizhou Shenqi Commercial for the lease of the Premises to operate a branch as an extension of Guizhou Parkson's operation in Guiyang city, Guizhou. Guizhou Parkson leases the property that it currently occupy for its department store operation from Guizhou Huawei, an associate to Guizhou Shenqi Enterprise and therefore Guizhou Huawei is a connected person to the Company for the purposes of Chapter 14A of the Listing Rules.

The Company currently owns 60% of the equity interest in Guizhou Parkson through its wholly-owned subsidiary, Step Summit Limited while the remaining 40% equity interest is currently held by Guizhou Shenqi Enterprise. Guizhou Shenqi Enterprise is a substantial shareholder of Guizhou Parkson and is therefore a connected person of the Company for the purposes of Chapter 14A of the Listing Rules.

Guizhou Shenqi Enterprise and Guizhou Baiqiang holds 49% and 51% equity interest in Guizhou Shenqi Commercial respectively. Zhang Pei, Zhang Zhi Jun and Zhang Ya collectively own 100% of Guizhou Shenqi Enterprise. Zhang Pei and Zhang Ya collectively own 100% of Guizhou Baiqiang; therefore both Guizhou Baiqiang and Guizhou Shenqi Commercial are associates to Guizhou Shenqi Enterprise and connected persons to the Company for the purposes of Chapter 14A of the Listing Rules.

Accordingly the Tenancy Agreement constitutes a continuing connected transaction for the Company under the Listing Rules. Since Guizhou Huawei and Guizhou Shenqi Commercial are both associates to Guizhou Shenqi Enterprise, pursuant to the requirement under Rule 14A.27, the maximum aggregated value of both lease agreements have been used in the calculation of the applicable percentage ratios. As the applicable percentage ratios represented by the aggregate of the maximum cap in respect of the Tenancy Agreement and the immediate preceding year rental of RMB13,564,536 paid under the existing tenancy agreement with Guizhou Huawei are equal to or more than 0.1% but less than 2.5%, the Tenancy Agreement is only subject to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements under the Listing Rules.

As the term of the Tenancy Agreement exceeds three years, pursuant to the requirements under Rule 14A.35(1), the Company has engaged the Independent Financial Advisor to explain why a lease term longer than three years is required and to confirm that it is normal business practice for leases of this type to be of such duration.

Tenancy Agreement

Landlord:	Guizhou Shenqi Commercial
Tenant:	Guizhou Parkson
Date:	14 June 2007
Premises:	Part of Level 1 and the entire Level 2 to Level 6 of Guiyang Golden Phoenix Plaza (with a total built-up area of approximately 14,118.8 square meters) located at No. 38, Zhonghua Middle Road, Guiyang City, Guizhou, PRC
Use:	Operation of department store business
Term:	20 years from the commencement date of business
Rent:	The annual rent is based on either: (a) fixed sum of RMB5 million; or (b) 2% of the Gross Sales Proceeds from gold, jewellery, electrical appliances and merchandises from the super market plus 6% of the Gross Sales Proceeds from other merchandises, whichever is the higher. Notwithstanding the above, the annual rent payable under the Tenancy Agreement is subject to the maximum cap of RMB15 million.

Early Termination: Guizhou Parkson has the right to terminate the Tenancy Agreement if it:

(a) has suffered a substantial loss from and it is impracticable to continue its operation at the Premises. In this respect, Guizhou Parkson shall give 3 months' prior notice to Guizhou Shenqi Commercial;

(b) has not been able to obtain the requisite approval from the MOC with respect to the opening of the department store. In this respect, both Guizhou Parkson and Guizhou Shenqi Commercial shall have no further obligations against each other.

Reasons for the transaction

Guiyang City is the capital city of Guizhou Province. It is a political, economic, cultural and educational hub of Guizhou Province. Guiyang City has a total population of approximately 3.5 million. Guiyang City's Gross Domestic product ("GDP") for the year 2006 was approximately Rmb60.3 billion and the GDP growth rate was at a Compounded Annual Growth Rate (CAGR) of 14% since 2002 to 2006. The retail sale for the year 2006 was approximately 23 billion, representing a growth rate of 15.0% compared to 2005 (Rmb20.2 billion).

Guizhou Parkson has been operating in Guiyang City since 2002 with approximately 20,800 sq.m of gross floor area and approximately 14,800 sq.m of retailing space. Its total merchandise sales grew by a CAGR of more than 29% from year 2003 to 2006 and profit after tax grew from Rmb8.3 million in 2003 to Rmb24.8 million in the year 2006. Its current retailing space restrained its growth in terms of market share in the local retail industry in Guiyang City. By entering into the proposed lease agreement to secure additional gross floor area, Guizhou Parkson will be able to increase the gross floor area of its retail operation to approximately 34,000sq.m enables it to offer a wider range of merchandise mix and brand mix to the local retail consumers The management believes that the additional gross floor area will further enhance our expansion plans in Guiyang City and the Guizhou province to capture additional market shares in the local retail industry and strengthen our foothold in Guiyang City and eventually in Guizhou province.

In addition, the success of the Group will depend, to certain extent, on the locations that the department stores occupy. There are only a limited number of prime locations in each city, and the Premises are situated in a prime location, i.e. the key commercial area of the Guiyang City. The Directors are of the view that entering into a longer lease term would enable the Group to continue to expand its operations at such prime location in Guiyang City. Otherwise, the Group may be subject to market rent fluctuations and disruption to its business operations if it is required to relocate after the expiry of the term. Further, the Group's business may be adversely affected if it is unable to relocate its department store to a prime location such as the one the Premises is situated. In this respect, the Group will have to incur substantial capital investment to establish a new department store in a non-prime location and this will include costs on store design, refurbishment, renovation, advertising, marketing and promotional activities in order to build up customer loyalty toward the said new store.

The Board will review annually the aggregate annual amount payable by Guizhou Parkson to Guizhou Shenqi Commercial and Guizhou Huawei. In the event that any of the applicable percentage ratios with respect to the annual rental amounts exceeds 2.5%, the Company will ensure compliance with all applicable requirements under the Listing Rules. Details of the Tenancy Agreement will be included in the subsequent annual reports and financial statements of the Company in accordance with Rule 14A.46 for the financial years during which the Tenancy Agreement remains in force and effect.

The terms of the Tenancy Agreement were negotiated on an arm's length basis between Guizhou Shenqi Commercial and the Company. Vigers Appraisal and Consulting Limited, an independent property valuer, has confirmed that the rent payable under the Tenancy Agreement reflects prevailing market rates. The Directors, including the independent non-executive Directors, none of whom has a material interest in the transaction, consider that the transaction is entered into in the ordinary and usual course of business of the Company and that the terms of the Tenancy Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Statement from the Independent Financial Advisor

The Independent Financial Advisor is of the view that the 20-year term for the Tenancy Agreement will effectively eliminate the uncertainty of discontinuation of the leasing of the Premises that would arise in the case of a shorter lease such as three years. If the Tenancy Agreement is for a three-year period, Guizhou Shenqi Commercial may choose not to extend the lease agreement and the Group may fail to secure a replacement location for the operation of the department store at comparable terms and conditions for a period beyond three years. Given the scarcity of supply of prime locations and their relatively high rental, the Independent Financial Advisor considers that it is in the interests of the Company to secure a prime location on a long-term lease so that the fluctuations in the property rental market can be hedged. Furthermore, although the terms of property leasing agreements vary from case to case, it is not uncommon for leasing agreements to have duration of 20 years or even longer. This is particularly the case for the operation of department stores where tenants usually prefer medium to long-term leases which provide the stability they need for their retail operations and avoid costly disruptions arising from the possible need to move upon expiry of the short-term lease. In view of the particular nature of the Group's department store business, the Independent Financial Advisor considers that it is normal business practice for contracts similar to the Tenancy Agreement to be of duration in excess of three years.

The Independent Financial Advisor is of the opinion that it is reasonable for and in the interests of the Group to enter into the Tenancy Agreement of duration of 20 years and it is normal business practice for leases similar to the Tenancy Agreement to be of such duration.

Connected transaction

Guizhou Shenqi Enterprise is a substantial shareholder of Guizhou Parkson and is therefore a connected person of the Company for the purposes of Chapter 14A of the Listing Rules.

Guizhou Shenqi Enterprise and Guizhou Baiqiang holds 49% and 51% equity interest in Guizhou Shenqi Commercial respectively. Zhang Pei, Zhang Zhi Jun and Zhang Ya collectively own 100% of Guizhou Shenqi Enterprise. Zhang Pei and Zhang Ya collectively own 100% of Guizhou Baiqiang; therefore both Guizhou Baiqiang and Guizhou Shenqi Commercial are associates to Guizhou Shenqi Enterprise and connected persons of the Company for the purposes of Chapter 14A of the Listing Rules.

Accordingly the Tenancy Agreement constitutes a continuing connected transaction for the Company under the Listing Rules. Since Guizhou Huawei and Guizhou Shenqi Commercial are both associates to Guizhou Shenqi Enterprise, pursuant to the requirement under Rule 14A.27, the maximum aggregated value of both lease agreements have been used. As the applicable percentage ratios represented by the aggregate of the maximum cap in respect of the Tenancy Agreement and the immediate preceding year rental of RMB13,564,536 paid under the existing tenancy agreement with Guizhou Huawei are equal to or more than 0.1% but less than 2.5%, the Tenancy Agreement is only subject to the reporting and announcement requirements and is exempted from the independent shareholders' approval requirements under the Listing Rules.

Information on the Company, Guizhou Shenqi Enterprise, Guizhou Shenqi Commercial, Guizhou Baiqiang and Guizhou Huawei

The Company, as part of the Group, is principally engaged in the operation of 38 department stores and two supercentres situated in prime locations in 27 cities in the PRC. The Group offers a wide range of merchandise in those department stores and supercentres, including fashion and apparel, cosmetics and accessories, household, electrical goods and groceries.

Guizhou Shenqi Enterprise, Guizhou Shenqi Commercial, Guizhou Baigiang and Guizhou Huawei are principally engaged in retail, pharmaceutical and property related business.

Definitions

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

"Board"	The board of Directors
"Company"	Parkson Retail Group Limited (百盛商業集團有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on 3 August 2005
"connected person(s)"	Has the meaning ascribed to it in the Listing Rules
"Director(s)"	The director(s) of the Company

"Gross Sales Proceeds"	the aggregate of: (a) annual sales proceeds received or receivable from the sale of the relevant merchandise less the value added tax or such other tax as may be imposed by the Inland Revenue of PRC; and (b) annual rental incomes received or receivable from the sub-lease of the space in the Premises gross up by the gross margin of the total merchandise sales and apportion according to the aforesaid categories of merchandise base on the percentage of its original share on the total merchandise sales.
"Group"	The Company, its subsidiaries and joint ventures
"Guizhou Baiqiang"	貴州百強投資有限公司 (Guizhou Baiqiang Investment Co. Ltd*), a company established under the laws of the PRC, which is held as to 51% by 張沛 (Zhang Pei) and 49% by 張婭 (Zhang Ya)
"Guizhou Huawei"	貴州華偉物業發展有限公司 (Guizhou Huawei Real Estate Development Co., Ltd) is a sino-foreign cooperative joint venture enterprise established under the laws of the PRC on 10 September , 1993 which is held as to more than 30% by 張沛 (Zhang Pei), 張之君 (Zhang Zhi Jun) and 張婭 (Zhang Ya)
"Guizhou Parkson"	貴州神奇百盛商業發展有限公司 (Guizhou Shenqi Parkson Retail Development Co., Ltd.*), a sino-joint venture equity joint venture enterprise established under the laws of the PRC and an indirect subsidiary of the Company, which is held as to 60% by the Group and as to 40% by Guizhou Shenqi Enterprise
"Guizhou Shenqi Commercial"	貴州神奇商業發展有限公司 (Guizhou Shenqi Commercial Development Co. Ltd*), a company established under the laws of the PRC, which is held as to 51% by Guizhou Baiqiang and as to 49% by Guizhou Shenqi Enterprise
"Guizhou Shenqi Enterprise	貴州神奇實業有限公司 (Guizhou Shenqi Enterprise Co. Ltd*), a company established under the laws of the PRC, which is held as to 30% by 張沛 (Zhang Pei), 40% by 張之君 (Zhang Shi Jun) and 30% by 張婭 (Zhang Ya).
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Independent Financial Advisor"	Access Capital Limited, licensed corporation to carry on types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the Securities and Futures Ordinance.
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MOC"	the Ministry of Commerce of the People's Republic of China
"PRC"	the People's Republic of China
"Premises"	Part of level 1 and the entire level 2 to level 6 of Guiyang Golden Phoenix Plaza located at No.38, Zhonghua Middle Road, Guiyang City, PRC
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	the ordinary share(s) of the Company with a nominal value of HK$0.10 each
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Tenancy Agreement"	the Tenancy Agreement entered into between Guizhou Shenqi Commercial and Guizhou Parkson dated 14 June 2007 as further described in this announcement
"%"	per cent.

**English translation of company names for identification purpose only*

By order of the Board
PARKSON RETAIL GROUP LIMITED
Cheng Yoong Choong
Managing Director

As at the date of this announcement, Mr CHENG Yoong Choong and Mr CHEW Fook Seng are the executive directors of the Company, Tan Sri CHENG Heng Jem is the non-executive director of the Company and Mr YAU Ming Kim, Robert, Mr STUDER Werner Josef and Mr KO Tak Fai, Desmond are the independent non-executive directors of the Company.

Hong Kong, 14 June 2007

Please also refer to the published version of this announcement in South China Morning Post.