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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)

**DISCLOSEABLE TRANSACTION:
TENANCY AGREEMENT
IN RESPECT OF A PROJECT IN DATONG CITY, THE PRC**

THE AGREEMENTS

On 20 January 2023, the Tenant (an indirect wholly-owned subsidiary of the Company) and the Landlord entered into a Cooperation Agreement in relation to the cooperation on the design, transformation, commercialisation and operation of the commercial premises of the Project. For the implementation of the Cooperation Agreement, the Tenant and the Landlord had on even date entered into (1) a Tenancy Agreement in respect of the tenancy of the Leased Commercial Premises and (2) an Entrusted Management Agreement in respect of the provision by the Tenant of entrusted management services to the Landlord for the Entrusted Management Premises.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to IFRS 16, the entering into of the Tenancy Agreement as a tenant will require the Group to recognise the General Commercial Area as a right-of-use asset. Thus, the entering into of the Tenancy Agreement and the transaction contemplated thereunder will be regarded as an acquisition of asset by the Group under the Listing Rules. On the basis of the acquisition of right-of-use asset under the Tenancy Agreement, the amount recognised by the Group pursuant to IFRS 16 is approximately RMB65.27 million.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the consideration for the acquisition of the right-of-use asset recognised by the Group pursuant to IFRS 16 is more than 5% but less than 25%, the entering into of the Tenancy Agreement constitutes a discloseable transaction for the Company, and is therefore subject to reporting and announcement requirements but is exempted from circular and shareholders' approval requirements under the Chapter 14 of the Listing Rules.

1. INTRODUCTION

On 20 January 2023, the Tenant (an indirect wholly-owned subsidiary of the Company) and the Landlord entered into a Cooperation Agreement in relation to the cooperation on the design, transformation, commercialisation and operation of the commercial premises of the Project. For the implementation of the Cooperation Agreement, the Tenant and the Landlord had on even date entered into (1) a Tenancy Agreement in respect of the tenancy of the Leased Commercial Premises and (2) an Entrusted Management Agreement in respect of the provision by the Tenant of entrusted management services to the Landlord for the Entrusted Management Premises.

A summary of the principal terms of the Tenancy Agreement and the relevant information are set out below.

2. TENANCY AGREEMENT

Date : 20 January 2023

Parties : Tenant: Shanxi Parkson Retail Development Co., Ltd.* (山西百盛商業發展有限公司), an indirect wholly-owned subsidiary of the Company

Landlord: Datong Dezhiyuan Real Estate Development Co., Ltd.* (大同市德致遠房地產開發有限責任公司)

Leased Commercial Premises : The first and second basements, and the first to seventh floors of the Project comprising the following:

Usage	Location	Construction Area
General Commercial Area	L1-L5	50,001 sq. m.
Supermarket	B1	3,080 sq. m.
Cinema	L6-L7	3,300 sq. m.
Non-capacity area of first basement (proposed for commercial use)	B1	8,664.8 sq. m.
Ancillary area of first basement for supporting the General Commercial Area	B1	1,865 sq. m.
Carparks	B2-L1	47,543 sq. m.

Term : 18 years from the Rent Starting Date.

Use : Management and operation of commercial premises under the trademark and trade name of “百盛” and “PARKSON” in the Leased Commercial Premises.

Rental : For the General Commercial Area, the rental payable (inclusive of tax and property management fee) under the Tenancy Agreement comprises 2 portions: (1) fixed rent and (2) profit sharing.

Fixed rent shall be RMB0.70 per sq. m. per day. The first 3 years from the Rent Starting Date are fixed rent free, and approximately RMB12.78 million per year for the fourth year to the eighteenth year.

For the ancillary area of first basement for supporting the General Commercial Area, it is free of rental charge and property management fee.

For the remaining areas of the Leased Commercial Premises, the rental payable (inclusive of tax and property management fee) under the Tenancy Agreement comprises only profit sharing.

Payment Terms : The fixed rent shall be paid on a quarterly basis. The profit sharing shall be settled on a quarterly basis.

Decoration Rent-free Period : The Tenant is entitled to a 6-month Decoration Rent-free Period commencing from the Delivery Date.

Renewal : If the Tenant wishes to renew the Tenancy Agreement, the Tenant shall serve a written request to the Landlord not less than 180 days prior to the expiration of the Term, and the Tenant and the Landlord shall sign a supplemental agreement or a separate tenancy agreement upon reaching mutual agreement on the tenancy terms.

In the case of failure to reach mutual agreement on the tenancy terms, the Tenancy Agreement will be terminated upon the expiration of the Term.

The Landlord may rent the Leased Commercial Premises to a third party, provided that the Tenant shall have the right of priority to rent the Leased Commercial Premises under the same terms as agreed between the Landlord and such third party.

Termination : Save as expressly provided, neither party may terminate the Tenancy Agreement prior to the expiration of the Term.

The circumstances under which both parties shall have the right to early termination includes:

- (a) the Leased Commercial Premises is subject to reclamation of rights of use of land and requisition of properties thereon or forced demolition by the government;
- (b) the occurrence of force majeure events resulting in the Tenant's inability to continue operations;
- (c) early termination as agreed by both parties;
- (d) the Tenancy Agreement cannot be performed as a result of the implementation and promulgation of national policies, laws and regulations; and
- (e) if the Tenant operates at the Leased Commercial Premises for 3 years with continuous losses and the accumulated losses exceed RMB10,000,000 from the Delivery Date (the amount of losses shall be subject to the audit report issued by the accounting firm designated by the Tenant), the Tenant may request for termination of the Tenancy Agreement and shall not bear any responsibility. The Tenancy Agreement shall be terminated upon receipt by the Landlord of written notice from the Tenant.

Assignment : Upon giving written notice to the Landlord, the Tenant is entitled to assign all its rights, obligations and responsibilities under the Tenancy Agreement to any of its subsidiaries or branches, provided that such subsidiary or branch has fulfilled certain requirements under the Tenancy Agreement.

3. ENTRUSTED MANAGEMENT AGREEMENT

On the same date as the Tenancy Agreement, the Tenant and the Landlord entered into the Entrusted Management Agreement, pursuant to which the Tenant will provide entrusted management services to the Landlord for the Entrusted Management Premises, being the shopping street with an area of 14,273 sq. m., of the Project. The Landlord will pay service fees to the Tenant pursuant to the terms and conditions of the Entrusted Management Agreement for a term which shall be the same as that of the Term.

The transaction under the Entrusted Management Agreement is a transaction of a revenue nature in the ordinary and usual course of business of the Company and does not constitute a transaction of the Company as defined under Chapter 14 of the Listing Rules.

4. BASIS FOR DETERMINATION OF THE RENTAL UNDER THE TENANCY AGREEMENT AND OTHER INFORMATION

The terms of the Tenancy Agreement (including the rental) were determined after arm's length negotiations between the Tenant and the Landlord, with reference to the prevailing market rentals for properties of similar type, age and location.

The rental and other amounts payable by the Tenant under the Tenancy Agreement are expected to be financed by the internal resources of the Group.

5. INFORMATION ON THE PARTIES

5.1. The Group and the Tenant

The principal activities of the Group are the operation and management of a network of department stores in the PRC.

The Tenant is an indirect wholly-owned subsidiary of the Company mainly participating in operation of department stores.

5.2. The Landlord

The Landlord is a company established in the PRC which scope of business include mainly development of real estate, property services and house leasing.

To the best knowledge and belief of the Directors, and having made all reasonable enquiries, the Landlord is directly owned as to 80% and controlled by Liu Jinghui* (劉晶輝). The Landlord and its ultimate owners are third parties independent of, and not connected with, the Company and its connected persons (as defined under the Listing Rules).

6. REASONS AND BENEFITS FOR ENTERING INTO THE TENANCY AGREEMENT

The principal activities of the Group are the operation and management of a network of department stores in the PRC. The Company has 2 existing stores in Datong City and has gained good reputation and market recognition over the years. With the current presence in Datong City, the Board believes that the Project plays an important role in the expansion of the Group's business in Datong City and is in line with the Group's development strategy in Shanxi Province. The Board believes that the tenancy will have a positive impact on the future development of the Group.

The Board is of the view that the terms of the Tenancy Agreement are fair and reasonable, and having taken into account the above reasons and benefits, considers that the tenancy is in the interests of the Company and its shareholders as a whole.

7. IMPLICATIONS UNDER THE LISTING RULES

Pursuant to IFRS 16, the entering into of the Tenancy Agreement as a tenant will require the Group to recognise the General Commercial Area as a right-of-use asset. Thus, the entering into of the Tenancy Agreement and the transaction contemplated thereunder will be regarded as an acquisition of asset by the Group under the Listing Rules. On the basis of the acquisition of right-of-use asset under the Tenancy Agreement, the amount recognised by the Group pursuant to IFRS 16 is approximately RMB65.27 million.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the consideration for the acquisition of the right-of-use asset recognised by the Group pursuant to IFRS 16 is more than 5% but less than 25%, the entering into of the Tenancy Agreement constitutes a discloseable transaction for the Company, and is therefore subject to reporting and announcement requirements but is exempted from circular and shareholders' approval requirements under the Chapter 14 of the Listing Rules.

8. DEFINITION

In this announcement, the following terms have the meanings set forth below unless the context requires otherwise:

“Board”	means the board of Directors
“Company”	means Parkson Retail Group Limited (百盛商業集團有限公司), a company incorporated in the Cayman Islands
“Cooperation Agreement”	means the Cooperation Agreement in respect of the Project entered into between the Tenant and the Landlord and dated 20 January 2023
“Decoration Rent-free Period”	means a 6-month decoration rent-free period commencing from the Delivery Date
“Delivery Date”	means the date on which the Landlord shall deliver the Leased Commercial Premises to the Tenant, which is tentatively set for 30 June 2023 (with an extension of not more than 3 months after the said tentative Delivery Date)
“Directors”	means the directors of the Company
“Entrusted Management Agreement”	means the Entrusted Management Agreement in respect of the Entrusted Management Premises entered into between the Tenant and the Landlord and dated 20 January 2023
“Entrusted Management Premises”	means the shopping street with an area of 14,273 sq. m. of the Project
“General Commercial Area”	means the general commercial portion of the Leased Commercial Premises with a construction area of 50,001 sq. m.

“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“IFRS 16”	means the “International Financial Reporting Standard 16 – Leases” issued by the International Accounting Standards Board, sets out the principles for the recognition, measurement, presentation and disclosure of leases
“Leased Commercial Premises”	means the first and second basements, and the first to seventh floors, comprising the General Commercial Area, supermarket, cinema, non-capacity and ancillary areas of first basement, and carparks, of the Project
“Landlord”	means Datong Dezhiyuan Real Estate Development Co., Ltd.* (大同市德致遠房地產開發有限責任公司), a company established in the PRC
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	means the People’s Republic of China and, for the purposes of this announcement only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Project”	means the Datong Taihe Hui Project* (大同太和匯項目) situated at Taihe Road East and Chongxi Street North (intersection of Taihe Road and Chongxi Street), Datong City* (大同市太和路東、重熙街北(太和路、重熙街交叉口)), Shanxi Province, the PRC
“Rent Starting Date”	means the date following the expiration of the Decoration Rent-free Period
“RMB”	means Renminbi, the lawful currency of the PRC

“sq. m.”	means square metres
“Tenant”	means Shanxi Parkson Retail Development Co., Ltd.* (山西百盛商業發展有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Tenancy Agreement”	means the tenancy agreement in respect of the Leased Commercial Premises entered into between the Tenant and the Landlord and dated 20 January 2023
“Term”	means the term of the Tenancy Agreement, being 18 years from the Rent Starting Date
“%”	means per cent

On behalf of the Board
PARKSON RETAIL GROUP LIMITED
Tan Sri Cheng Heng Jem
Executive Director & Chairman

20 January 2023

As at the date of this announcement, the Executive Directors of the Company are Tan Sri Cheng Heng Jem and Ms. Juliana Cheng San San, the Non-executive Director is Dato’ Sri Dr. Hou Kok Chung and the Independent Non-executive Directors are Dato’ Fu Ah Kiow, Mr. Yau Ming Kim, Robert and Datuk Koong Lin Loong.

* *For ease of reference, the names of the PRC established companies or entities have generally been included in this announcement in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.*