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PARKSON RETAIL GROUP LIMITED

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 3368)

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF 44% OF BEIJING PARKSON**

Independent Financial Adviser
to the Independent Board Committee
and the Independent Shareholders



SOMERLEY LIMITED

A letter from the Independent Board Committee is set out on page 18 of this circular. A letter from Somerley Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 32 of this circular.

16 June 2006

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“1st Announcement”	the announcement of the Company dated 25 January 2006 in relation to, inter alia, the Preliminary Framework Agreement
“1st Circular”	the circular of the Company dated 16 February 2006 in relation to, inter alia, the Preliminary Framework Agreement
“44% Interest”	the 44% equity interest in Beijing Parkson held by the China Arts & Crafts Companies
“Acquisition”	the transactions contemplated under the Replacement Agreement and the Sale and Purchase Agreements including, but not limited to, the sale and purchase of the 44% Interest
“Ancillary Agreements”	the ancillary agreements entered into pursuant to the Preliminary Framework Agreement, namely, (a) the share pledge agreement dated 23 January 2006 entered into between Shanghai Lion Investment and the China Arts & Crafts Companies; (b) the letters of undertaking dated 23 January 2006 issued by the China Arts & Crafts Companies; (c) the letters of instruction dated 23 January 2006 issued by the China Arts & Crafts Companies to Beijing Parkson; and (d) the enforcement-of-debt undertaking dated 23 January 2006 issued by the China Arts & Crafts Companies
“Anshan Parkson”	鞍山天興百盛購物中心有限公司 (Anshan Tianxing Parkson Shopping Centre Co., Ltd.), a limited liability company established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Anshan Tianxing
“Anshan Tianxing”	鞍山天興國際置業發展有限公司 (Anshan Tianxing International Properties Development Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC and a joint venture partner of the Group, which is owned as to 50% by 鞍山市金羽經貿有限公司 (Anshan Jin Yu Economic and Trade Co., Ltd.) and as to 50% by Praise Shine Company Limited (賀明有限公司)
“Arts & Crafts Exhibition”	中國工藝美術品展銷公司 (Arts & Crafts Exhibition Company), an enterprise owned by the whole people established under the laws of the PRC on 8 December 1992
“associate(s)”	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

“Beijing Equity Exchange”	北京產權交易所 (China Beijing Equity Exchange), an equity transaction institution authorised by the Beijing Municipal Government
“Beijing Parkson”	百盛商業發展有限公司 (Parkson Retail Development Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 42% by Parkson Investment, as to 14% by Rosenblum, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition
“Board”	the board of Directors
“China Arts & Crafts”	中國工藝美術(集團)公司 (China Arts & Crafts (Group) Company), a state-owned enterprise established under the laws of the PRC
“China Arts & Crafts Companies”	China Arts & Crafts, China Arts & Crafts Culture and Arts & Crafts Exhibition
“China Arts & Crafts Culture”	中工美工藝美術文化公司 (China Arts & Crafts Culture Company), a state-owned enterprise established under the laws of the PRC
“Chongqing Parkson”	重慶萬友百盛廣場有限公司 (Chongqing Wanyu Parkson Plaza Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 70% by the Group and as to 30% by Chongqing Wanyou
“Chongqing Wanyou”	重慶萬友經濟發展有限責任公司 (formerly known as 重慶萬友經濟技術發展總公司) (Chongqing Wanyou Economic Development Co., Ltd.), a wholly state-owned limited liability company established under the laws of the PRC and a joint venture partner of the Group
“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, the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Dalian Tianhe”	大連天河百盛購物中心有限公司 (Dalian Tianhe Parkson Shopping Center Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Framework Deposit”	the deposit paid and payable by Shanghai Lion Investment to the China Arts & Crafts Companies under the Preliminary Framework Agreement
“Group”	the Company, its subsidiaries and joint ventures
“Guizhou Shenqi Enterprise”	貴州神奇實業有限公司 (Guizhou Shenqi Enterprise Co., Ltd.), a limited liability company established under the laws of the PRC and a joint venture partner of the Group, which is owned as to 30% by Zhang Pei, as to 40% by Zhang Zhi Jun and as to 30% by Zhang Ya
“Guizhou Parkson”	貴州神奇百盛商業發展有限公司 (formerly known as “貴州神奇百貨發展有限公司”) (Guizhou Shenqi Parkson Retail Development Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Guizhou Shenqi Enterprise
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a board committee of the Company comprising all the independent non-executive Directors, namely Mr. Fong Ching, Eddy, Mr. Studer Werner Josef and Mr. Ko Tak Fai, Desmond, who are not interested in the Acquisition
“Independent Shareholder(s)”	Shareholders other than persons who are, under the Listing Rules, required to abstain from voting on the resolution to approve a transaction
“Inner Mongolia Leader”	內蒙古立達百盛廣場有限公司 (Inner Mongolia Leader Parkson Plaza Co., Ltd), a sino-foreign equity joint venture enterprise established under the laws of the PRC
“Latest Practicable Date”	14 June 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“LDHB”	Lion Diversified Holdings Berhad, a public limited liability company incorporated and domiciled in Malaysia, the shares of which are listed on the Main Board of Bursa Malaysia and the controlling shareholder of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Mianyang Parkson”	綿陽富臨百盛廣場有限公司 (Mianyang Fulin Parkson Plaza Co., Ltd.), a sino-foreign equity joint venture enterprise incorporated under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Sichuan Fulin
“MOC”	the Ministry of Commerce of the PRC
“Nanning Brilliant”	南寧柏聯百盛商業有限公司 (Nanning Brilliant Parkson Commercial Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC
“Parkson Investment”	Parkson Investment Pte. Ltd., a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) and an indirect wholly-owned subsidiary of the Company
“Parkson Investment Holdings”	金獅百盛投資有限公司 (Parkson Investment Holdings Co., Ltd.), a wholly foreign-owned enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Performance Fee”	the refundable performance fee in the aggregate amount of RMB200,000,000 paid by Shanghai Lion Investment to the China Arts & Crafts Companies as part of the registration procedures prior to the public tender process, in accordance with the bidding rules of the Beijing Equity Exchange and the bidding requirements of the China Arts & Crafts Companies
“PRC”	the People’s Republic of China
“PRG Corporation”	PRG Corporation Limited, a limited liability company established under the laws of the British Virgin Islands, the immediate holding company of the Company and a wholly-owned subsidiary of LDHB
“Preliminary Framework Agreement”	the preliminary framework agreement dated 23 January 2006 entered into between Shanghai Lion Investment and the China Arts & Crafts Companies
“Qingdao No. 1”	青島第一百盛有限公司 (Qingdao No.1 Parkson Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC
“Replacement Agreement”	the replacement agreement dated 26 May 2006 entered into between Shanghai Lion Investment, Parkson Investment Holdings and the China Arts & Crafts Companies as further described in this circular

DEFINITIONS

“RM”	Ringgit Malaysia, the lawful currency of Malaysia
“RMB”	Renminbi, the lawful currency of the PRC
“Rosenblum”	Rosenblum Investments Pte. Ltd., a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) and an indirect wholly-owned subsidiary of the Company
“Sale and Purchase Agreements”	the sale and purchase agreements dated 26 May 2006 entered into between Parkson Investment Holdings and each of the China Arts & Crafts Companies as further described in this circular
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shaanxi Chang’an Information”	陝西長安信息置業投資有限公司 (formerly known as “陝西天寶置業投資有限公司”) (Shaanxi Chang’an Information Property Investment Co., Ltd.), a limited liability company established under the laws of the PRC and a joint venture partner of the Group, which is owned as to 65.45% by 長安信息產業(集團)股份有限公司 (Chang’an Information Property (Group) Co., Ltd.), as to 20.73% by 西安亞盛實業開發有限公司 (Xi’an Ya Sheng Industrial Development Co., Ltd.), as to 6.91% by 陝西眾興企業集團有限公司 (Shaanxi Zhong Xing Enterprise Group Co., Ltd.)
“Shanghai Lion Investment”	上海獅貿投資諮詢有限公司 (Shanghai Lion Parkson Investment Consultant Co., Ltd.), a wholly foreign-owned enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Shanghai Lion Property”	上海九海金獅物業管理有限公司 (Shanghai Nine Sea Lion Properties Management Co., Ltd.), a sino-foreign co-operative joint venture enterprise established under the laws of the PRC between the Group and Shanghai Nine Sea Industry and an associated company of the Company
“Shanghai Nine Sea Parkson”	上海九海百盛廣場有限公司 (formerly known as “上海九海金獅廣場有限公司”) (Shanghai Nine Sea Parkson Plaza Co., Ltd.), a sino-foreign co-operative joint venture enterprise established under the laws of the PRC between the Group and Shanghai Nine Sea Industry and an indirect subsidiary of the Company

DEFINITIONS

“Shanghai Nine Sea Industry”	上海九海實業有限公司 (formerly known as “上海九海實業公司”) (Shanghai Nine Sea Industry Co., Ltd.), a limited liability company established under the laws of the PRC and a joint venture partner of the Group
“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)
“Sichuan Fulin”	四川富臨實業集團有限公司 (Sichuan Fulin Industrial Group Co., Ltd.), a limited liability company established under the laws of the PRC, a joint venture partner of the Group, which is owned as to 51% by An Zhi Fu, as to 20% by An Dong, as to 20% by Nie Dan, as to 5% by An Zhou and as to 4% by Xu Bo
“Somerley”	Somerley Limited, a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
“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)
“Xi’an Chang’an Parkson”	西安長安百盛百貨有限公司 (Xi’an Chang’an Parkson Store Co., Ltd.), a limited liability company established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Shaanxi Chang’an Information
“Xi’an Shidai Parkson”	西安時代百盛百貨有限公司 (Xi’an Shidai Parkson Store Co., Ltd.), a limited liability company established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Xi’an Xinrun
“Xi’an Xinrun”	西安新潤置業有限公司 (Xi’an Xinrun Property Co., Ltd.), a limited liability company established under the laws of the PRC, a joint venture partner of the Group, which is owned as to 39.1% by (Shaanxi Shuang Yi Petrochemical Co., Ltd.) and as to 23.46% by Song Xin Tian and as to 37.44% by 47 other individual shareholders

DEFINITIONS

“Xinjiang Parkson”	新疆友好百盛商業發展有限公司 (Xinjiang Youhao Parkson Development Co., Ltd.), a limited liability company established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Xinjiang Youhao
“Xinjiang Youhao”	新疆友好(集團)股份有限公司 (Xinjiang Friendship (Group) Co., Ltd.), a public limited liability company established under the laws of the PRC, the shares of which are listed on the Shanghai Stock Exchange, and a joint venture partner of the Group
“Wuxi Distribution”	無錫市供銷合作總社 (Wuxi Distribution Corporation), a collectively-owned enterprise established under the laws of the PRC and a joint venture partner of the Group
“Wuxi Parkson”	無錫三陽百盛廣場有限公司 (Wuxi Sanyang Parkson Plaza Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Wuxi Distribution
“Yangzhou Commercial”	揚州商業大廈 (Yangzhou Commercial Plaza), a state-owned enterprise established under the laws of the PRC and a joint venture partner of the Group
“Yangzhou Parkson”	揚州百盛商業大廈有限公司 (Yangzhou Parkson Plaza Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC and an indirect subsidiary of the Company, which is owned as to 55% by the Group and as to 45% by Yangzhou Commercial
“%”	per cent.



PARKSON 百盛
PARKSON RETAIL GROUP LIMITED

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 3368)

Executive Directors:

Mr. Cheng Yoong Choong

Mr. Chew Fook Seng

Non-executive Director:

Tan Sri Cheng Heng Jem

Independent non-executive Directors:

Mr. Fong Ching, Eddy

Mr. Studer Werner Josef

Mr. Ko Tak Fai, Desmond

Registered office:

c/o M&C Corporate Services Limited

P.O. Box 309GT

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

Principal place of business

in Hong Kong:

Suite 1316

Prince's Building

10 Chater Road

Central

Hong Kong

16 June 2006

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF 44% OF BEIJING PARKSON**

INTRODUCTION

The Company currently owns 56% of the equity interest in Beijing Parkson through its wholly-owned subsidiaries. The remaining 44% Interest is currently jointly held by the China Arts & Crafts Companies. The Company wishes to acquire the 44% Interest. However, as the China Arts & Crafts Companies are PRC state-owned enterprises, any sale of the 44% Interest is subject to a valuation process, public tender process and the obtaining of approvals from the relevant PRC regulatory authorities.

On 25 January 2006 and 16 February 2006, the Company published the 1st Announcement and issued the 1st Circular, respectively, in connection with the possible acquisition of the 44% Interest and, among other things, the Preliminary Framework Agreement and the public tender process in relation thereto.

LETTER FROM THE BOARD

On 26 May 2006, the Board announced that the Group was the successful bidder for the 44% Interest in the public tender process and Parkson Investment Holdings, an indirect wholly-owned subsidiary of the Company, and the China Arts & Crafts Companies had entered into the Sale and Purchase Agreements in relation to the sale and purchase of the 44% Interest on 26 May 2006. The same parties, together with Shanghai Lion Investment, also entered into the Replacement Agreement on 26 May 2006 which, among other things, terminated the Preliminary Framework Agreement and the Ancillary Agreements, set out the mechanism for the treatment of the Performance Fee paid and replaced Shanghai Lion Investment with Parkson Investment Holdings as the purchaser entity for the Acquisition.

As at the date of the Sale and Purchase Agreements and Replacement Agreement and the Latest Practicable Date, China Arts & Crafts, together with its wholly-owned subsidiaries China Arts & Crafts Culture and Arts & Crafts Exhibition, were substantial shareholders of Beijing Parkson, which is a subsidiary of the Company, and therefore connected persons of the Company for the purposes of Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction for the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As no Shareholders are required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition, the Company has applied to the Stock Exchange for a waiver pursuant to Rule 14A.43 of the Listing Rules under which written Independent Shareholders' approval may be accepted in lieu of holding a general meeting. Written approval of the Acquisition from PRG Corporation, which holds 361,560,000 Shares representing approximately 65.5% of the issued share capital of the Company, was obtained on 26 May 2006.

Relevant details of the Acquisition will also be included in the next published annual report and accounts of the Company in accordance with Rule 14A.45 of the Listing Rules.

According to the Listing Rules, the Acquisition also constitutes a discloseable transaction of the Company which is subject to the notification and publication requirements as set out in Rules 14.34 to 14.36 and 14.38 to 14.39 of the Listing Rules.

The purposes of this circular are to provide you with details of the Acquisition, to set out the recommendation of the Independent Board Committee in relation to the Acquisition and to set out the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition.

LETTER FROM THE BOARD

THE SALE AND PURCHASE AGREEMENTS

Date

26 May 2006

Parties

Vendors: China Arts & Crafts
 China Arts & Crafts Culture
 Arts & Crafts Exhibition
 (together the “Vendors”, each a “Vendor”)

Purchaser: Parkson Investment Holdings

Assets to be acquired

The 44% Interest, comprising:

- (a) 43% held by China Arts & Crafts;
- (b) 0.9% held by China Arts & Crafts Culture; and
- (c) 0.1% held by Arts & Crafts Exhibition.

Consideration

The consideration for the 44% Interest is RMB525,078,400 which shall be paid, or deemed to be paid, as follows:

- (a) RMB200,000,000 of the consideration shall be deemed to have been settled by the payment of the Performance Fee;
- (b) RMB10,031,360 shall be paid within 30 business days from the date of the Sale and Purchase Agreements; and
- (c) the balance of the consideration, in the amount of RMB315,047,040, shall be paid within five business days from the date on which all of the conditions under the Sale and Purchase Agreements (as set out under the sub-heading “Conditions” below) are satisfied.

LETTER FROM THE BOARD

The consideration for the 44% Interest reflects normal commercial terms which were arrived at after arm's-length negotiations between the Vendors and the Purchaser, with reference to the valuation process carried out by a valuer appointed by the Vendors and approved by the SASAC in accordance with applicable PRC laws and regulations. The value of the 44% Interest as determined under the valuation process is the same as the aggregate consideration of RMB525,078,400.

Beijing Parkson was a cooperative joint venture at the time of establishment to which the China Arts & Crafts Companies contributed by complying with various conditions set out in the joint venture agreement entered into between the China Arts & Crafts Companies and the Group. There is no quantifiable original purchase cost paid by the China Arts & Crafts Companies in the establishment and operation of Beijing Parkson.

Conditions

Completion of the Sale and Purchase Agreements is subject to the satisfaction of the following conditions:

- (a) the filing of the Sale and Purchase Agreements at the Beijing Equity Exchange;
- (b) the obtaining by the Company of all relevant approvals required under the Listing Rules (including but not limited to shareholders' approval or other equivalent approvals) ("Company Approvals");
- (c) the obtaining of approvals from SASAC and MOC ("Regulatory Approvals"); and
- (d) the issuance of a certificate of approval by the MOC with respect to the change in status of Beijing Parkson from a sino-foreign equity joint venture enterprise to a wholly-foreign owned enterprise.

Termination rights

Parkson Investment Holdings shall have the right to terminate the Sale and Purchase Agreements upon the occurrence of any of the following events:

- (a) the Company Approvals not being obtained within 90 days of the signing of the Sale and Purchase Agreements;
- (b) the Regulatory Approvals not being obtained within 180 days of the signing of the Sale and Purchase Agreements; or
- (c) the occurrence of any of the following events of default:
 - (i) the Vendors unilaterally proposing to terminate the Sale and Purchase Agreements;
 - (ii) the Vendors refusing to assist in the application for the Regulatory Approvals;

LETTER FROM THE BOARD

- (iii) the directors of Beijing Parkson nominated by the Vendors voting against the Acquisition;
- (iv) commencement of liquidation of the Vendors or mandatory enforcement proceedings against the 44% Interest; or
- (v) any breach by the Vendors of the Sale and Purchase Agreements.

Upon termination of the Sale and Purchase Agreements, all amounts of consideration paid in respect of the Acquisition (including the Performance Fee) shall be refunded by the Vendors to Parkson Investment Holdings, together with interest accrued thereon from the date of payment to the date of refund, at the rate which is the one-year interest rate published by the People's Bank of China for loans by financial institutions.

THE REPLACEMENT AGREEMENT

Date

26 May 2006

Parties

China Arts & Crafts

China Arts & Crafts Culture

Arts & Crafts Exhibition

Shanghai Lion Investment

Parkson Investment Holdings

Termination of the Preliminary Framework Agreement and the Ancillary Agreements

The Preliminary Framework Agreement and the Ancillary Agreements shall be terminated on the effective date of, and be replaced by, the Replacement Agreement. All rights and obligations of the parties under the Preliminary Framework Agreement and the Ancillary Agreements shall cease upon termination. For a summary of the terms of the Preliminary Framework Agreement and the Ancillary Agreements, please refer to the 1st Announcement and the 1st Circular.

The Performance Fee

Pursuant to the bidding rules of the Beijing Equity Exchange and the bidding requirements of the China Arts & Crafts Companies with respect to the registration procedures as part of the public tender process for the acquisition of the 44% Interest, Shanghai Lion Investment was required to pay to the China Arts & Crafts Companies the Performance Fee in the aggregate amount of RMB200,000,000 as an indication of Shanghai Lion Investment's ability to fund the acquisition, should it proceed.

LETTER FROM THE BOARD

As disclosed in the 1st Announcement and the 1st Circular, the first part of the Framework Deposit in the amount of RMB50,000,000 was paid by Shanghai Lion Investment to the China Arts & Crafts Companies upon the signing of the Preliminary Framework Agreement. The second part of the Framework Deposit in the amount of RMB60,000,000 remains unpaid as of the date of this circular as the condition for payment under the Preliminary Framework Agreement has not yet been satisfied. As agreed between Shanghai Lion Investment and the China Arts & Crafts Companies, the RMB50,000,000 paid as part of the Framework Deposit is deemed to form part payment of the Performance Fee by Shanghai Lion Investment.

As of the date of this circular, the Performance Fee has been fully paid by Shanghai Lion Investment to the China Arts & Crafts Companies.

In the event that the Acquisition is not completed, the Performance Fee shall be refunded by the China Arts & Crafts Companies to Parkson Investment Holdings, together with interest accrued thereon from the date of payment to the date of refund, at the annual interest rate published by the People's Bank of China for loans by financial institutions.

Change of purchaser entity

Parkson Investment Holdings will replace Shanghai Lion Investment as the purchaser of the 44% Interest and all procedural steps with respect to the public tender process carried out by Shanghai Lion Investment pursuant to the Acquisition shall be deemed to have been carried out as agent for and on behalf of Parkson Investment Holdings. The Performance Fee paid to the China Arts & Crafts Companies by Shanghai Lion Investment shall be deemed to be paid on behalf of Parkson Investment Holdings and shall be repayable by Parkson Investment Holdings to Shanghai Lion Investment on demand.

Condition

The Replacement Agreement is conditional upon the Sale and Purchase Agreements becoming unconditional. The effective date of the Replacement Agreement shall be the date on which all of the conditions under the Sale and Purchase Agreements are satisfied.

INFORMATION ON THE CHINA ARTS & CRAFTS COMPANIES

China Arts & Crafts is principally engaged in the business of international trading, retail, exhibition and trading of special commodities such as arts and crafts. China Arts & Crafts Culture and Arts & Crafts Exhibition are wholly-owned subsidiaries of China Arts & Crafts. China Arts & Crafts Culture is principally engaged in the business of cultural consultation and trading of arts and crafts, and Arts & Crafts Exhibition is principally engaged in the business of exhibition and trading of arts and crafts and ornaments.

LETTER FROM THE BOARD

INFORMATION ON THE COMPANY, SHANGHAI LION INVESTMENT, PARKSON INVESTMENT HOLDINGS AND BEIJING PARKSON

The Group is principally engaged in the operation of 37 “Parkson” branded department stores and two “Xtra” branded supercentres situated in prime locations in 26 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.

HISTORICAL FINANCIAL INFORMATION ABOUT BEIJING PARKSON

Beijing Parkson, an indirect subsidiary of the Company which is held as to 56% by the Group, is the owner and operator of the Parkson department store located at Fuxingmennei Street, Beijing. Its branch offices, Beijing Haidian branch, Taiyuan branch, Zhengzhou branch and Haerbin branch, are the operators of the Company’s department stores located in Haidian District in Beijing, Taiyuan, Zhengzhou and Haerbin respectively.

Beijing Parkson also owns 51% of the equity interest in Xinjiang Parkson, the operator of the Company’s department store in Xinjiang.

Set out below is the historical financial information (on an individual company level) on Beijing Parkson and Xinjiang Parkson for each of the years ended 31 December 2004 and 2005.

(Audited under PRC generally accepted accounting principles)	Year ended	Year ended
	31 December	31 December
	2004	2005
	(in RMB '000)	(in RMB '000)
Beijing Parkson		
Turnover (<i>Note</i>)	1,091,810	1,465,467
Other income	50,509	78,037
Total gross sales proceeds	1,142,319	1,543,504
Net profit before tax	135,526	186,036
Net profit after tax	90,639	124,644
Total assets	639,623	971,138
Net asset value	154,987	161,219
Xinjiang Parkson		
Turnover (<i>Note</i>)	185,734	217,393
Other income	11,972	13,600
Total gross sales proceeds	197,706	230,993
Net loss before tax	(5,360)	(1,040)
Net loss after tax	(5,360)	(1,040)
Total assets	38,231	52,650
Net asset value	164	(875)

Note: Turnover figures above include sales proceeds from direct sales and concessionaire sales.

LETTER FROM THE BOARD

Consolidated unaudited financial information on Beijing Parkson for each of the years ended 31 December 2004 and 2005 is set out below:

	Year ended 31 December 2004 (in RMB '000)	Year ended 31 December 2005 (in RMB '000)	Three months ended 31 March 2006 (in RMB '000)
Beijing Parkson (consolidated)			
Turnover (<i>Note</i>)	1,277,544	1,682,860	591,667
Other income	62,481	91,637	35,639
Total gross sales proceeds	1,340,025	1,774,497	627,306
Net profit before tax	130,166	184,997	69,537
Net profit after tax	85,279	123,605	47,540
Total assets	667,654	1,013,588	943,955
Net asset value	144,951	150,144	197,684

Note: Turnover figures above include sales proceeds from direct sales and concessionaire sales.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Beijing Parkson is strategically located in the capital of the PRC and is a major contributor in terms of revenue and profits to the Group. Accordingly, the Board considered that Beijing Parkson, as a wholly-owned subsidiary of the Company, would immediately enhance the growth and profitability of the Group. Moreover, if Beijing Parkson were to be wholly-owned by the Company, the decision-making process of Beijing Parkson would become more efficient and there would be greater flexibility in the implementation of Beijing Parkson's business expansion plans. The Board considers that the above would be in line with the Group's expansion plans and would complement its long-term growth strategy.

The Directors (including the independent non-executive Directors) believe that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DISCLOSEABLE AND CONNECTED TRANSACTION

As China Arts & Crafts, together with its wholly owned subsidiaries China Arts & Crafts Culture and Arts & Crafts Exhibition, are substantial shareholders of Beijing Parkson, which is a subsidiary of the Company, they are connected persons of the Company for the purposes of Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction for the Company under the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules calculated in respect of the Acquisition exceed the threshold for exemption under Rule 14A.32, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of the China Arts & Crafts Companies, their ultimate beneficial owners or their associates hold any Share(s) in the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, none of the Shareholders or their respective associates have any interest in the transaction which is different from other Shareholders. Accordingly, there are no Shareholders who are required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. As such, the Company has applied to the Stock Exchange for a waiver pursuant to Rule 14A.43 of the Listing Rules under which a written Independent Shareholders' approval may be accepted in lieu of holding a general meeting. Written approval of the Acquisition from PRG Corporation, which holds 361,560,000 Shares representing approximately 65.5% of the issued share capital of the Company, was obtained on 26 May 2006.

The China Arts & Crafts Companies and their ultimate beneficial owners have no relationship with the Company and its connected persons other than as set out above.

Relevant details of the Acquisition will also be included in the next published annual report and accounts of the Company in accordance with Rule 14A.45 of the Listing Rules.

According to the Listing Rules, the Acquisition also constitutes a discloseable transaction of the Company which is subject to the notification and publication requirements as set out in Rules 14.34 to 14.36 and 14.38 to 14.39 of the Listing Rules.

FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Total assets

As the consideration for the 44% Interest was and will be financed from internal resources of the Group, the acquisition of the 44% Interest will not have any material impact on the total assets of the Group.

Liability

As the consideration for the 44% Interest was and will be paid in cash and financed from internal resources of the Group, there will be no impact on liability of the Group as a result of such payment.

Earnings

Taking into account the financial performance of Beijing Parkson and Xinjiang Parkson for the financial year of 2005 and the improved financial performance for the first quarter of the current financial year of 2006, the Company considers that the Acquisition will enhance the earnings of the Group.

LETTER FROM THE BOARD

Liquidity

Taking into account the Group's unaudited cash and cash-equivalent balance (which was approximately RMB2 billion as at 31 March 2006) and the positive operating cashflows of the Group's business, the Directors consider that the payment of the consideration for the 44% Interest would have no material adverse effect on the liquidity of the Group.

Accordingly, the Acquisition would not have any material impact on the financial position of the Group.

ADVICE

Your attention is drawn to the letter from the Independent Board Committee as set out on page 18 of this circular which contains its advice to the Independent Shareholders in respect of the Acquisition.

Your attention is also drawn to the letter of advice received from Somerley, the independent financial adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 19 to 32 of this circular which contains, among other things, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition and the principal factors and reasons considered by it in arriving at its advice.

Your attention is also drawn to the general information as set out in the appendix of this circular.

By Order of the Board
Cheng Yoong Choong
Managing Director



PARKSON RETAIL GROUP LIMITED

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 3368)

16 June 2006

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF 44% OF BEIJING PARKSON**

We refer to the circular issued by the Company to its shareholders and dated 16 June 2006 (the “Circular”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the terms of the Acquisition and to advise the Independent Shareholders in connection with the Acquisition as to whether, in our opinion, its terms are fair and reasonable so far as the Independent Shareholders are concerned and whether the Acquisition is in the interests of the Company and the Shareholders as a whole. Somerley has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Somerley as set out in the Circular.

Having considered the principal factors and reasons considered by, and the advice of, Somerley as set out in its letter of advice, we consider that the terms of the Acquisition are fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

FONG Ching, Eddy

STUDER Werner Josef

KO Tak Fai, Desmond

Independent Board Committee

LETTER FROM SOMERLEY

The following is the full text of the letter of advice from Somerley in respect of the Acquisition and is prepared for the purpose of incorporation into this circular.



Somerley Limited
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

16 June 2006

*To: The Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 44% INTEREST IN BEIJING PARKSON

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement and the Replacement Agreement regarding the acquisition by Parkson Investment Holdings, an indirect wholly-owned subsidiary of the Company, of the remaining 44% interest in Beijing Parkson not already owned by the Group. Details of the Sale and Purchase Agreement and the Replacement Agreement entered into between members of the Group and the China Arts & Crafts Companies (comprising China Arts & Crafts and its wholly owned subsidiaries, namely China Arts & Crafts Culture and Arts & Crafts Exhibition) are contained in the circular to the Shareholders dated 16 June 2006 (the “Circular”), of which this letter forms a part. Unless otherwise defined, terms used in this letter shall have the same meanings as defined in the Circular.

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules. The China Arts & Crafts Companies are connected persons of the Company (as defined under the Listing Rules) as China Arts & Crafts is a substantial shareholder of Beijing Parkson, which is a subsidiary of the Company, and China Arts & Crafts Culture and Arts & Crafts Exhibition are wholly-owned by China Arts & Crafts. Accordingly, the Acquisition also constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders.

The Company has applied for a waiver to accept written Independent Shareholders’ approval in lieu of holding a general meeting on the basis that no Shareholders will be required to abstain from voting if the Company were to convene a general meeting to consider and vote on the Acquisition. Written approval of the Acquisition from PRG Corporation, which holds 361,560,000 Shares representing approximately 65.50% of the issued share capital of the Company, was obtained on 26 May 2006.

LETTER FROM SOMERLEY

An Independent Board Committee comprising Messers Fong Ching, Eddy, Studer Werner Josef and Ko Tak Fai, Desmond, the three independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Acquisition. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and the management of the Company, which we have assumed to be true, accurate and complete. We have sought and received confirmation from the executive Directors and the management of the Company that all material relevant information has been supplied to us and to the best knowledge of the executive Directors and the management of the Company, no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and it is justified for us to rely on such information. We have no reason to doubt the truth and accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. However, we have not conducted any independent investigation into the business and affairs of the Group or the Beijing Parkson Group (as defined below). We have assumed that all information and representations contained or referred to in the Circular are true as at the date of the Circular.

Background to and summary of the Sale and Purchase Agreement

The Group currently holds 56% of equity interest in Beijing Parkson and the remaining 44% Interest is held jointly by the China Arts & Crafts Companies. The Group would like to acquire the remaining 44% Interest. However, as the China Arts & Crafts Companies are PRC state-owned enterprises, any sale of the 44% Interest is subject to valuation and a public tender process and the obtaining of approvals from the relevant PRC regulatory authorities. The Group has therefore entered into the Preliminary Framework Agreement with the China Arts & Crafts Companies pursuant to which the latter would immediately commence the PRC approval process in consideration for payment of a refundable deposit of up to RMB110 million. The first part of the Framework Deposit in the amount of RMB50 million has been paid by the Group to the China Arts & Crafts Companies. The second part of the Framework Deposit in the amount of RMB60 million remains unpaid as of the date of the Circular as the condition for payment under the Preliminary Framework Agreement has not yet been satisfied. The recovery of the RMB50 million Framework Deposit paid is protected by the security arrangement as set out in detail in the 1st Announcement and the 1st Circular issued by the Company in relation to, among other things, the Preliminary Framework Agreement.

Pursuant to the bidding rules of the Beijing Equity Exchange and as required by the China Arts & Crafts Companies, the Group has paid the China Arts & Crafts Companies a performance fee as an indication that it is able to fund the Acquisition if it wins the bid in the public tender process. The Performance Fee amounts to RMB200 million and as agreed between the Group and the China Arts & Crafts Companies, the RMB50 million Framework Deposit paid is deemed to form part payment of the Performance Fee by the Group.

LETTER FROM SOMERLEY

The Group became the successful bidder for the 44% Interest in the public tender process and it has on 26 May 2006 procured its wholly-owned subsidiary, Parkson Investment Holdings, to enter into the Sale and Purchase Agreements with the China Arts & Crafts Companies in relation to the sale and purchase of the 44% Interest. The same parties, together with Shanghai Lion Investment (which was the original party to the Preliminary Framework Agreement), also entered into the Replacement Agreement on the same date which, among other things, (i) terminated the Preliminary Framework Agreement and the Ancillary Agreements relating to the security arrangement as regards the Framework Deposit with effect from the date on which the Sale and Purchase Agreements became unconditional, (ii) set out the mechanism for the treatment of the Performance Fee paid and (iii) replaced Shanghai Lion Investment with Parkson Investment Holdings as the purchasing entity for the Acquisition.

The consideration for the 44% Interest is RMB525,078,400, which shall be paid, or deemed to be paid, as follows:

- (a) RMB200,000,000 of the consideration shall be deemed to have been settled by the payment of the Performance Fee;
- (b) RMB10,031,360 shall be paid within 30 business days from the date of the Sale and Purchase Agreements; and
- (c) the balance of the consideration, in the amount of RMB315,047,040, shall be paid within five business days from the date on which all of the conditions under the Sale and Purchase Agreements (which includes obtaining the necessary Independent Shareholders' approval and consent from the relevant PRC government or regulatory bodies) are satisfied.

If the Acquisition is completed, the Group will be entitled to dividends attributable to the 44% Interest which is declared between the date of the Preliminary Framework Agreement and the date of completion of the Acquisition on a pro-rata basis, to be calculated by dividing any amounts paid by the Group over the entire sum of the consideration for the Acquisition.

In the event that the Acquisition is not completed, the Performance Fee shall be refunded by the China Arts & Crafts Companies to Parkson Investment Holdings, together with interest accrued thereon from the date of payment to the date of refund. The interest will be calculated at the annual interest rate (currently at 5.85%) published by the People's Bank of China for loans extended by financial institutions.

The Sale and Purchase Agreements may be terminated by the Group for certain reasons, including failure to obtain the Independent Shareholders' approval and the PRC regulatory approvals within 90 days and 180 days, respectively, of the signing of the Sale and Purchase Agreements. Upon termination of the Sale and Purchase Agreement, all amounts of consideration paid in respect of the Acquisition shall be refunded to Parkson Investment Holdings together with interest calculated at the above rate.

Executive Summary

The Group is principally engaged in ownership and operation of department stores and supercentres in the PRC. Beijing Parkson is strategically located in the capital city of PRC and is one of the major revenue and profit contributions to the Group. The Acquisition involves purchase of the remaining 44% interest in Beijing Parkson not already owned by the Group. The consideration for the Acquisition is at approximately 9.6 times Beijing Parkson's unaudited consolidated net profit for the year of 2005. This compares favourably with similar transactions which are priced in the range of 15-79 times price/earnings multiple. The Acquisition would entitle the Group to the economic return from the entire Beijing Parkson Group, which is considered in the interest of the Group. Overall, we consider the Acquisition fair and reasonable and in the interest of the Group. Shareholders shall read the full text of our letter which sets out in detail the principal factors and reasons that we have considered in arriving at the above opinion.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In arriving at our opinion, we have taken into account the following principal factors and reasons:

1. Business and financial information of the Group

(i) *Business of the Group*

The Company was listed on the Stock Exchange in November 2005 by way of public offer and placing. The Group is principally engaged in the ownership and operation of department stores and supercentres in the PRC. Currently, the Group operates and manages 37 "Parkson" department stores and 2 "Xtra" supercentres in 26 cities in the PRC including major cities such as Beijing, Shanghai, Chongqing and Xi'an. Of these department stores and supercentres, 23 department stores are owned and operated by the Group and the remaining 14 department stores and the 2 supercentres are managed by the Group for third parties or connected persons (as defined under the Listing Rules) of the Company. The Group has positioned itself at the middle to middle-upper end of the department store sector in the PRC and offers a wide range of internationally renowned brands of consumer merchandise.

The Group's revenue is generated from direct sales and concessionaire sales. Direct sales are sales of merchandise sourced and sold directly by the Group. As regards concessionaire sales, the Group has entered into concessionaire agreements with certain suppliers (known as concessionaires) for the supply of branded goods. The Group would receive a percentage of the revenue generated from the sales of these products as commission income.

In addition to income generated from its self-owned stores, the Group also receives consultancy and management fees from department stores and supercentres that it manages on behalf of third parties or connected persons (as defined under the Listing Rules) of the Company.

LETTER FROM SOMERLEY

(ii) *Financial performance of the Group*

Set out below is a summary of the key proforma financial information of the Group that would have been attained had the acquisition of stores in 2005 pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the Group’s structure in preparation for the listing of the Company’s shares on the Stock Exchange been completed on 1 January 2004. The below financial information is prepared under the International Financial Reporting Standards (“IFRS”) and is extracted from the Company’s announcement dated 23 February 2006 in respect of the Group’s financial results for the year ended 31 December 2005:

	Year ended 31 December			
	2004		2005	
	RMB’000 (unaudited)	%	RMB’000 (unaudited)	%
Turnover				
Sales of goods — direct sales	483,875		613,410	
Commission from concessionaire sales (<i>Note 2</i>)	<u>574,240</u>		<u>778,868</u>	
	1,058,115	86.2	1,392,278	85.0
Consultancy and management fee	38,458	3.1	47,691	2.9
Rental incomes	66,500	5.4	78,284	4.8
Other operating revenue	<u>64,717</u>	<u>5.3</u>	<u>119,270</u>	<u>7.3</u>
	<u>1,227,790</u>	<u>100.0</u>	<u>1,637,523</u>	<u>100.0</u>
Profit from operations	<u>283,459</u>		<u>473,709</u>	
Net profit attributable to the Shareholders for the year	<u>150,629</u>		<u>290,715</u>	

Notes:

- (1) In preparation for listing of its shares on the Stock Exchange, the Group acquired during 2005 eleven managed stores, including the Beijing branch department store and the Taiyuan department store which are now part of the group comprising Beijing Parkson and Xingjiang Parkson (the “Beijing Parkson Group”). The above proforma financial information of the Group is prepared on the assumption that the above acquired stores, operating entities or businesses have been transferred to the Group effective from 1 January 2004.
- (2) The above turnover from concessionaire sales include only the commission income which represents a percentage of the concessionaire sales. The gross proceeds from the concessionaire sales amounted to approximately RMB2.9 billion and RMB3.8 billion respectively for the two years ended 31 December 2005.
- (3) The Group has not separately published its proforma financial information (prepared on the above basis) for the three months ended 31 March 2006.

As illustrated in the above summary, direct sales and concessionaire sales accounted for at least 85% of the Group’s turnover during the two years ended 31 December 2005. The remaining turnover is attributable to consultancy and management fees received by the Group from its managed

department stores, rental incomes received from the concessionaires and other operating revenue which include, among other things, promotion income, credit card handling fees and display space leasing fees. According to the management of the Group, the Beijing flagship store operated by the Beijing Parkson Group is one of the major revenue and profit contributors to the Group.

2. **Reasons for the Acquisition**

Beijing Parkson is strategically located in Beijing which is the capital of the PRC. It is also a major revenue and profit contributor to the Group. On this basis, we concur with the Directors that the Acquisition would enhance the growth and profitability of the Group. Moreover, if Beijing Parkson were to be wholly-owned by the Company, the decision-making process of Beijing Parkson would become more efficient and there would be greater flexibility in the implementation of Beijing Parkson's business expansion plan.

3. **Business and financial results of the Beijing Parkson Group**

(i) ***Business***

Beijing Parkson

Beijing Parkson was established in 1993 in the PRC as a sino-foreign co-operative joint venture enterprise and was converted into a sino-foreign equity joint venture enterprise in 2003. The joint venture term of Beijing Parkson is 30 years commencing from October 1993.

Beijing Parkson has positioned itself at the middle to middle-upper end of the retail market and offers a wide range of merchandise which can be broadly categorized into "fashion and apparel", "cosmetics and accessories", "household, electrical goods and others" and "groceries and perishables". Beijing Parkson's main focus is on fashion "lifestyle" products, in particular ladies' fashion and cosmetics.

Beijing Parkson is the owner and operator of the Beijing flagship store located at No. 101, Fuxingmennei Street, Xicheng District, Beijing, the PRC which is a key revenue and profit contributor to the Group. Apart from the Beijing flagship store, Beijing Parkson also operates through its branch offices four other department stores located in Haidian district in Beijing, Taiyuan, Zhengzhou and Haerbin. The Beijing Haidian store and the Taiyuan store were acquired by Beijing Parkson as part of the Group Reorganisation in 2005. The Zhengzhou store and the Haerbin store were newly opened by Beijing Parkson in 2005.

Xinjiang Parkson

Beijing Parkson also owns a 51% interest in Xinjiang Parkson. Xinjiang Parkson is a limited company formed under the laws of the PRC on 11 November 2002. The remaining 49% interest in Xinjiang Parkson is held by Xinjiang Friendship (Group) Co. Ltd., which shares are listed on the Shanghai Stock Exchange in the PRC. Xinjiang Parkson owns and operates a department store in Xinjiang which was opened in December 2002.

LETTER FROM SOMERLEY

Xinjiang Parkson is a start-up operation and has just turned profitable in the three months ended 31 March 2006. The scale of operation of Xinjiang Parkson is relatively small as compared to that of Beijing Parkson.

(ii) *Financial results*

Profit and Loss Accounts (unaudited)

Set out below is the unaudited consolidated financial information of the Beijing Parkson Group for the two years ended 31 December 2005 and the three months ended 31 March 2006 provided by the Company:

	Year ended 31 December		Growth rate	Three months ended 31 March		Growth rate
	2004	2005		2005	2006	
	RMB'000	RMB'000		RMB'000	RMB'000	
Gross sales proceeds						
Sales of goods — direct sales	236,860	269,521		75,674	91,417	
Concessionaire sales (<i>Note 2</i>)	1,040,684	1,413,339		325,951	500,250	
Rental incomes	52,793	61,323		15,426	21,349	
Other operating revenue	9,688	30,314		8,208	14,290	
Total gross sales proceeds	1,340,025	1,774,497	32%	425,259	627,306	48%
Operating expenses						
Purchases of goods and changes in inventories	(197,616)	(222,840)		(62,470)	(75,781)	
Payments to concessionaires	(811,041)	(1,110,295)		(259,545)	(397,473)	
Staff costs	(46,271)	(53,399)		(10,900)	(19,013)	
Depreciation and amortization	(23,448)	(21,808)		(5,099)	(7,963)	
Rental expenses	(42,035)	(70,814)		(13,777)	(28,688)	
Other operating expenses	(91,521)	(107,312)		(28,560)	(26,389)	
Total operating expenses	(1,211,932)	(1,586,468)		(380,351)	(555,247)	
Profits from operations	128,093	188,029	47%	44,908	72,059	60%
Finance income/(costs)	2,073	(3,032)		167	(2,522)	
Profit from operations before income tax	130,166	184,997	42%	45,075	69,537	54%
Income tax	(44,887)	(61,392)		(16,334)	(21,997)	
Net profit for the year/period	85,279	123,605	45%	28,741	47,540	65%
Attributable to:						
Shareholders of Beijing Parkson	87,905	124,114		28,370	46,130	
Minority interest	(2,626)	(509)		371	1,410	
Operating profit margin	9.6%	10.6%		10.6%	11.5%	
Net profit margin (after tax)	6.4%	7.0%		6.8%	7.6%	
Number of stores at end of year/period	2	6		3	6	

LETTER FROM SOMERLEY

Notes:

- (1) The above financial information is extracted from the unaudited consolidated accounts of the Beijing Parkson Group prepared under the PRC GAAP.
- (2) The above turnover figures include gross sales proceeds from direct sales and concessionaire sales whereas under the IFRS, only the commission income which represents a percentage of the concessionaire sales is accounted for as revenue.

Beijing flagship store

This is the Group's first store in PRC. It started operation in the year of 1994 and has an approximate retailing space of 39,000 square metres. According to the unaudited accounts prepared under the PRC GAAP, the store achieved a full year gross sales proceeds of approximately RMB1,301.3 million in the year of 2005, up by 13.9% as compared to the preceding year. Profit after tax was approximately RMB146.9 million, up by 62.1% as compared to the preceding year.

According to the unaudited accounts prepared under the PRC GAAP, for the three months ended 31 March 2006, the store recorded a gross sales proceeds of approximately RMB402.5 million, up by 17.5% as compared to the corresponding period of 2005.

Profit after tax grew by 37.7% from the corresponding period of 2005 to approximately RMB45.7 million.

Beijing Haidian store

This is a second store opened by the Group in Beijing. The store was opened in 1997 as a managed store and was acquired by the Beijing Parkson Group in August 2005 pursuant to the Group Reorganisation. The retailing space is approximately 7,300 square metres. The nature of operation is mainly of a supercentre with majority of the gross sales proceeds coming from sale of groceries and perishables.

For the three months ended 31 March 2006, according to the unaudited accounts prepared under the PRC GAAP, the store recorded a gross sales proceeds of approximately RMB19.1 million and a profit after tax of approximately RMB0.3 million. Due to the nature of its business, the location and limited floor space, the management of the Group does not expect a significant contribution in terms of profit from this store.

Taiyuan store

The store was opened in November 2002 as a managed store and was acquired by the Beijing Parkson Group pursuant to the Group Reorganisation. The acquisition was completed in October 2005. The retailing space is approximately 27,000 square metres. This store is entering into a maturing phase and is expected to enjoy a bigger improvement in profit margin as business grows in future.

LETTER FROM SOMERLEY

For the three months ended 31 March 2006, according to the unaudited accounts prepared under the PRC GAAP, the store recorded a gross sales proceeds of approximately RMB67.7 million and a profit of approximately RMB3.5 million.

Zhengzhou store

This store was opened in January 2005, according to the unaudited accounts prepared under the PRC GAAP, this store recorded a full year gross sales proceeds of approximately RMB63.1 million and a full year loss of approximately RMB22.4 million or an average of approximately RMB1.9 million a month. The retailing space is approximately 45,500 square metres. It is anticipated that this store would continue to suffer loss until it is turned profitable after around three years of operation.

For the three months ended 31 March 2006, according to the unaudited accounts prepared under the PRC GAAP, the store recorded a gross sales proceeds of RMB23.3million and a loss of RMB4.4 million or an average approximately RMB1.5 million per month, which is substantially lower than the average of approximately RMB1.9 million recorded for the year of 2005.

Haerbin store

This store was opened in the month of April 2005 and according to the unaudited accounts prepared under the PRC GAAP, this store generated a gross sales proceeds of approximately RMB95.4 million and a loss of approximately RMB7.0 million for the nine months in the year of 2005. The retailing space is approximately 32,700 square metres.

For the three months ended 31 March 2006, according to the unaudited accounts prepared under the PRC GAAP, the store recorded a gross sales proceeds of approximately RMB38.3 million and a loss of only approximately RMB0.4 million or an average of approximately RMB0.1 million per month, significantly lower than the average of approximately RMB0.8 million per month for the year of 2005.

Xinjiang store

This store was opened in December 2002 with a total retailing space of approximately 31,500 square metres. Similar to the Taiyuan store, this store is also entering into a maturing phase. During 2005, according to the audited accounts prepared under the PRC GAAP, the store recorded a gross sales proceeds of approximately RMB231.0 million, up by 16.8% as compared to 2004, and loss reduced to approximately RMB1.0 million as compared to approximately RMB5.4 million for the year of 2004.

For the three months ended 31 March 2006, according to the unaudited accounts prepared under the PRC GAAP, the store recorded a gross sales proceeds of approximately

LETTER FROM SOMERLEY

RMB76.4 million, up by 7.2% as compared to the corresponding period of last year and a profit of approximately RMB2.9 million, up by 262.5% as compared to the corresponding period of last year mainly due to the improvement in profit margin. This store is expected to enjoy a bigger improvement in profit margin as business grows in future.

Balance sheet (unaudited)

Set out below is a summary of the unaudited consolidated balance sheet of the Beijing Parkson Group as at 31 March 2006 (as extracted from its unaudited consolidated accounts made up to 31 March 2006 and prepared in accordance with the PRC GAAP):

	<i>RMB '000</i>	<i>RMB '000</i>
Non-current assets		
Property (<i>note 1</i>)	310,747	
Other non-current assets	<u>103,134</u>	413,881
Current assets		
Inventories	38,788	
Trade receivables	14,044	
Prepayments and other receivables (<i>note 2</i>)	183,351	
Cash and cash equivalents	<u>293,891</u>	530,074
Current liabilities		
Bank borrowing	(70,000)	
Trade payables	(252,358)	
Customers' deposits, other payables and accruals	(166,252)	
Tax payable	(27,203)	
Dividend payable	<u>(63,760)</u>	<u>(579,573)</u>
Net current liabilities		<u>(49,499)</u>
Total assets less current liabilities		364,382
Non-current liabilities		
Long-term bank borrowing		<u>(166,698)</u>
Net Assets		<u><u>197,684</u></u>
Represented by:		
Owner's Equity		
Share capital	132,800	
Reserves	<u>63,903</u>	196,703
Minority interests		<u>981</u>
Total Equity		<u><u>197,684</u></u>

LETTER FROM SOMERLEY

Notes:

- (1) This represents the property which houses the main wing of the Beijing flagship store (the “Property”). The Property was valued at RMB836 million as at 31 August 2005, full text of the property valuation report is included in the prospectus dated 17 November 2005 issued in relation to the listing of the Company’s shares. The above valuation amount exceeds the book value of the Property as at 31 March 2006 by approximately RMB525.3 million, which was not reflected in the above balance sheet. Beijing Parkson has pledged the Property as security for bank borrowings of Beijing Parkson, which outstanding balance as at 31 March 2006 was approximately RMB236.7 million.
- (2) Prepayments comprise principally the rental prepayments made to China Arts & Crafts, which amounted to approximately RMB124.7 million as at 31 March 2006. Beijing Parkson is leasing the property which houses the south wing of the Beijing flagship store from China Arts & Crafts. The aggregate rental for the nine years commencing from 20 August 2005 was agreed to be RMB137,370,000, which has been prepaid by Beijing Parkson in one lump sum.

The above balance sheet shows that the Beijing Parkson Group had a relatively small net asset base. This is because Beijing Parkson has a small paid up capital and it used to fully distribute its yearly profits as dividend, subject to availability of cashflow.

The Beijing Parkson Group has a relatively small amount of trade receivables. This reflects the cash based nature of department store business.

The Beijing Parkson Group had a net current liability position as at 31 March 2006, which is not normally expected for a cash based department store business. According to the management of the Beijing Parkson Group, this is largely because part of the financing for the Property came from short-term bank borrowings. The management of the Group intends to fully repay the mortgage loan over the Property soon after completion of the Acquisition as the Group as a whole has a substantial cash reserve, which amounted to approximately RMB2 billion as at 31 March 2006. Upon repayment of the short-term mortgage loan in the above manner, it is expected that the Beijing Parkson Group would be restored to current asset position.

4. Consideration for the Acquisition

As mentioned in the letter from the Board, the consideration for the 44% Interest was arrived at after arm’s-length negotiations between the Group and the China Arts & Crafts Companies, with reference to the valuation process carried out by a valuer appointed by the Group and approved by the SASAC in accordance with applicable PRC laws and regulations.

Evaluation of the consideration by reference to historical price/earning multiple

The consideration for the 44% Interest implies a value for the entire Beijing Parkson Group of approximately RMB1,193.4 million, which represents a historical price/earnings multiple (“P/E”) of approximately 9.6 times Beijing Parkson’s unaudited consolidated net profit after tax and minority interest of approximately RMB124.1 million prepared under the PRC GAAP for the year ended 31 December 2005.

LETTER FROM SOMERLEY

Comparison against market transactions

In evaluating the consideration, we have reviewed a number of transactions (“Comparable Transactions”) comparable to the Acquisition in the PRC retail industry as announced by companies listed on the Shanghai or Shenzhen Stock Exchange in the last two years. The table below summarises the terms of the Comparable Transactions:

Name of company	Percentage of acquisition	Investor	Date of signing agreement	Implied value (RMB 'm) (note 4)	Earnings of the company (RMB 'm) (FY 2005)	P/E
Wuhan Department Store Group Co. Ltd. (note 1)	2.43%	Zhejiang Yintai Department Store Co., Ltd.	April 2006	872.2	11.0 (FY 2005)	79.3
Yinchuan Xinhua Department Store Co., Ltd. (note 2)	27.70%	Wumart Stores, Inc. (note 3)	April 2006	637.9	39.9 (FY 2005)	16.0
Dashang Group Co., Ltd. (note 2)	29.50%	Bailian Group (State-owned)	July 2005	2,169.5	141.0 (FY 2004)	15.4
Beijing Wangfujing Department Store Group Co., Ltd. (note 2)	50.13%	Beijing Holding Group Co., Ltd. (State-owned)	March 2006	1,994.8	26.9 (FY 2005)	74.2
Chengdu People's Department Store Group Co., Ltd. (note 2)	65.75%	Shenzhen Maoye plaza Co., Ltd.	June 2005	577.9	10.5 (FY 2004)	55.0
The Acquisition	44%	The Group	May 2006	1,193.4	124.1 (FY 2005)	9.6

Notes:

- (1) Listed on the Shenzhen Stock Exchange.
- (2) Listed on the Shanghai Stock Exchange.
- (3) Listed on the Hong Kong Stock Exchange.
- (4) This represents the value of the company as implied by the consideration.

The above table shows that the price/earnings multiples implied by the Comparable Transactions range from 15.4 times to 79.3 times. The historical price/earnings multiple of 9.6 times of Beijing Parkson Group as implied by the consideration for the Acquisition is lower than the above market range.

5. **Effect of the Acquisition on the financial position of the Group**

(i) *Earnings*

The shareholders of the Company would be entitled to the entire economic returns from the Beijing Parkson Group after completion of the acquisition of the remaining 44% Interest in Beijing Parkson by the Group. As Beijing Parkson is one of the major revenue and profit contributors to the Group, the Acquisition is expected to bring positive effect to the revenue and earnings of the Group.

(ii) *Assets*

The Acquisition would have no material impact on the assets, but may affect the tangible assets, of the Group. This is because the value of the Beijing Parkson Group attributable to the 44% Interest as implied by the Acquisition of approximately RMB525 million is substantially higher than its attributable consolidated net asset value, which amounted to approximately RMB86.5 million (unaudited) as at 31 March 2006 in accordance with Beijing Parkson's unaudited consolidated balance sheet (prepared under PRC GAAP) as at the above date. This book value has not taken into account the appreciation in market value of the Property (as mentioned above) and the possible reduction in net book value if Beijing Parkson declares a dividend prior to completion of the Sale and Purchase Agreement. It is currently contemplated that Beijing Parkson would declare an interim dividend for the year of 2006 prior to completion of the Sale and Purchase Agreement. As a result, a significant goodwill may arise as a result of the Acquisition and the goodwill would represent the excess of the price paid for the Acquisition over the fair value of the 44% Interest, normally taken to be its net book value, as at completion of the Acquisition.

(iii) *Liquidity and cashflow*

The Acquisition would be financed by internal resources of the Group. As the Group is cash rich (with unaudited cash balance stood at approximately RMB2 billion as at 31 March 2006) and had a net cash position (means cash minus bank borrowings) as at 31 March 2006, the Acquisition is not expected to have material impact on the liquidity position of the Group.

Upon completion of the Acquisition, Beijing Parkson would become wholly-owned by the Group and this would enable more efficient use of the Group's working capital. As the Group has significant cash position, it may consider paying off the mortgage loan secured over Beijing Parkson's Property in order to save interest after completion of the Acquisition.

LETTER FROM SOMERLEY

RECOMMENDATION

Based on the above principal factors and reasons, we consider the Acquisition are on normal commercial terms which are fair and reasonable to the Independent Shareholders and the entering into of the Sale and Purchase Agreement and the Replacement Agreement is in the interests of the Company and the Shareholders as a whole.

If a general meeting of the Shareholders is to be held for the purpose of considering and, if thought fit, approving the Acquisition, we would advise, and recommend that the Independent Board Committee advise, the Independent Shareholders to vote in favour of the resolution in respect of approving the Sale and Purchase Agreement and the Replacement Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Deputy Chairman

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

DISCLOSURE OF INTERESTS

Directors and chief executive of the Company

(i) As at Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and/or debentures (as the case may be) of the Company or any its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, were as follows:

(a) *Long positions of Tan Sri Cheng Heng Jem in the share capital of the Company:*

Name of corporation	Nature of Interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
Company	Corporate interest	PRG Corporation ¹	PRG Corporation	361,560,000 ordinary shares	65.50%

Note:

1.
- Tan Sri Cheng Heng Jem, together with his wife, Puan Sri Chan Chau Ha alias Chan Chau Har, through their direct interest and a series of companies in which they have a substantial interest, are entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meeting of PRG Corporation, pursuant to the SFO, he is deemed to be interested in the Shares held by PRG Corporation in the Company.

(b) *Long positions of Tan Sri Cheng Heng Jem in the share capital of the Company’s associated corporations (as defined in the SFO):*

Name of associated corporation	Nature of Interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
PRG Corporation	Corporate interest	LDHB	LDHB	1 ordinary share	100%
Lion Mahkota Parade Sdn. Bhd.	Corporate interest	LDH Management Sdn. Bhd.	LDH Management Sdn. Bhd.	400,000 preference shares	100%
LDHB	Beneficial interest and corporate interest	Tan Sri Cheng Heng Jem and a series of controlled corporations	Tan Sri Cheng Heng Jem and a series of controlled corporations	415,090,930 ordinary shares	61.08% ¹

Note:

- This represents Tan Sri Cheng Heng Jem’s interest as at the Latest Practicable Date. This figure will increase if any of the debentures referred in sub-paragraph (c) below are converted into shares in LDHB.

The following are the associated corporations (as defined in the SFO) of the Company in which Tan Sri Cheng Heng Jem is deemed interested as a result of his controlling interest in LDHB (the figures in brackets represent LDHB’s interests in these corporations): Qingdao No. 1 (52.60%), Hamba Research & Development Co., Ltd. (98%), Nanning Brilliant (51%), Dalian Tianhe (60%), Aktif-Sunway Sdn. Bhd. (80%) and Inner Mongolia Leader (25%).

In relation to the following associated corporations (as defined in the SFO) of the Company which are non wholly-owned subsidiaries of LDHB, Tan Sri Cheng Heng Jem is also deemed interested in the remaining minority interest in those corporations as follows:

Name of associated corporation	LDHB’s interest	Additional deemed interest
Lion Mahkota Parade Sdn. Bhd. ^D	99.99%	0.01% ^A
Likom CMS Sdn. Bhd.	99.98%	0.02% ^B
LDH Investment Pte. Ltd.	60%	40% ^C

Notes:

- Corporate interest through Ayer Keroh Resort Sdn. Bhd. Tan Sri Cheng Heng Jem, through a series of companies in which he has a substantial interest, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, he is deemed to be interested in the shares held by Ayer Keroh Resort Sdn. Bhd. in Lion Mahkota Parade Sdn. Bhd.

- B. Corporate interest through Likom Computer System Sdn. Bhd. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, he is deemed to be interested in the shares held by Likom Computer System Sdn. Bhd. in Likom CMS Sdn. Bhd.

- C. Corporate interest through Lion Asia Investment Pte. Ltd. Tan Sri Cheng Heng Jem, through a series of companies in which he has a substantial interest, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, he is deemed to be interested in the shares held by Lion Asia Investment Pte. Ltd. in LDH Investment Pte. Ltd.

- D. Interest refers to the class of ordinary shares of Lion Mahkota Parade Sdn. Bhd. Interest in the class of preference shares is disclosed in preceding table under sub-paragraph (b) above.

(c) *Long Positions of Tan Sri Cheng Heng Jem in the debentures of the Company and its associated corporations (as defined in the SFO):*

Through beneficial and corporate interests, Tan Sri Cheng Heng Jem is deemed to be interested in 72.62% of the RM49.6 million 2% redeemable convertible unsecured loan stock due 31 May 2009 issued by LDHB (“RCULS”) as follows:

- corporate interest¹ (through Amsteel Corporation Berhad) in 69.15% of the RCULS;

- corporate interest² (through Lion Industries Corporation Berhad) in 3.47% of the RCULS.

In addition, Tan Sri Cheng Heng Jem has a beneficial interest in the RCULS held by Amsteel Corporation Berhad and Lion Industries Corporation Berhad (amounting in aggregate to 72.62% of the RCULS in issue) as follows:

- option granted by Amsteel Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 69.15% of the RCULS held by Amsteel Corporation Berhad;

- option granted by Lion Industries Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 3.47% of the RCULS.

The above options are and will remain exercisable until 15 December 2006.

Notes:

- 1. Corporate interest through Amsteel Corporation Berhad. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Heng Jem is interested in the RCULS held by Amsteel Corporation Berhad.

2. Corporate interest through Lion Industries Corporation Berhad. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Heng Jem is interested in the RCULS held by Lion Industries Corporation Berhad.
3. The percentage figures given above with respect to the RCULS are as at the Latest Practicable Date. These figures will change upon the exercise of any of these debentures.

(c) *Long Positions of Cheng Yoong Choong in the share capital of the Company’s associated corporations (as defined in the SFO):*

Name of associated corporation	Nature of Interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
LDHB	Beneficial interest	Cheng Yoong Choong	Cheng Yoong Choong	1,098,846 ordinary shares	0.16%

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

- (ii) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2005 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Substantial shareholders of the Group

As at Latest Practicable Date, so far as the Directors are aware, each of the following persons, not being a Director or chief executive of the Company, had an interest in the Company’s shares which falls to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of shareholder	Nature of interest	Number of shares	Percentage of shareholding (direct or indirect)
PRG Corporation	Beneficial	361,560,000	65.50%
LDHB	Corporate	361,560,000	65.50%
		(Note 2)	
Puan Sri Chan Chau Ha alias Chan Chow Har (Note 3)	Interest of spouse	361,560,000	65.50%
Lion Development (Penang) Sdn. Bhd.	Beneficial and corporate	361,560,000	65.50%
		(Note 4)	
Pangkor Investments (Cayman Islands) Limited	Beneficial	54,648,000	9.9%
Khazanah Nasional Berhad	Corporate	54,648,000	9.9%
		(Note 5)	

Notes:

- All of the above are long positions.
- PRG Corporation is a wholly-owned subsidiary of LDHB. By virtue of the SFO, LDHB is deemed to be interested in the Shares held by PRG Corporation in the Company.
- Puan Sri Chan Chau Ha alias Chan Chow Har is the wife of Tan Sri Cheng Heng Jem and is deemed to be interested in 361,560,000 Shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO.
- Lion Development (Penang) Sdn. Bhd., directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Development (Penang) Sdn. Bhd. is deemed to be interested in the Shares held by PRG Corporation in the Company.
- Pangkor Investments (Cayman Islands) Limited is a wholly-owned subsidiary of Khazanah Nasional Berhad. As such Khazanah Nasional Berhad is deemed to be interested in the 54,648,000 Shares held by Pangkor Investments (Cayman Islands) Limited for the purposes of the SFO.

As at Latest Practicable Date, so far as the Directors are aware, each of the following persons, not being a Director or chief executive of the Company, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Substantial Shareholder	Member of the Group	Percentage of equity interest held
China Arts & Crafts	Beijing Parkson	44%
Xinjiang Youhao	Xinjiang Parkson	49%
Wuxi Distribution	Wuxi Parkson	40%
Yangzhou Commercial	Yangzhou Parkson	45%
Shaanxi Chang'an Information ¹	Xi'an Chang'an Parkson	49%
Xi'an Xinrun ²	Xi'an Shidai Parkson	49%
Sichuan Fulin ³	Mianyang Parkson	40%
Chongqing Wanyou	Chongqing Parkson	30%
Guizhou Shenqi Enterprise ⁴	Guizhou Parkson	40%
Anshan Tianxing ⁵	Anshan Parkson	49%
Shanghai Nine Sea Industry	Shanghai Lion Property	71% ⁶
Shanghai Nine Sea Industry	Shanghai Nine Sea Parkson	29% ⁶

Notes:

1. 長安信息(產業)集團股份有限公司 (Chang'an Information (Property) Group Holding Company Limited), a PRC joint stock company, the shares of which are being listed on the Shanghai Stock Exchange owns 65.45% of the equity interest of Shaanxi Chang'an Information, representing a 32.07% indirect equity interest in Xi'an Chang'an Parkson.
2. 陝西雙翼石油化工有限公司 (Shaanxi Shuangyi Petroleum and Chemical Company Limited) owns 39.1% of the equity interest in Xi'an Xinrun, representing a 19.16% indirect equity interest in Xi'an Shidai Parkson.
3. 安治富 (An Zhifu) owns 51% of the equity interest in Sichuan Fulin, representing a 20.40% indirect equity interest in Mianyang Parkson.
4. 張沛 (Zhang Pei), 張之君 (Zhang Zhi Jun) and 張姪 (Zhang Ya) own 30%, 40% and 30% of the equity interest in Guizhou Shenqi Enterprise, respectively, representing a 12%, 16% and 12% indirect equity interest in Guizhou Parkson.
5. Each of 鞍山市金羽經貿有限公司 (Anshan City Jinyu Jingmao Company Limited) and 香港貿明有限公司 (Praise Shine Company Limited) owns 50% of the equity interest in Anshan Tianxing, representing 24.5% indirect equity interest in Anshan Parkson.
6. Shanghai Lion Property and Shanghai Nine Sea Parkson are cooperative joint venture enterprises established under the laws of the PRC. The percentages are calculated based on the voting rights attributable to Shanghai Nine Sea Industry pursuant to the respective co-operative joint venture contracts. The percentages to distributable profits are different.

Mr. Cheng Yoong Choong and Mr. Chew Fook Seng are directors of PRG Corporation, which is a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO. Save as disclosed in this circular and so far as the Directors are aware, as at the Latest Practicable Date, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group

DIRECTORS' INTEREST IN CONTRACT

As at Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company subsisting as at the date of this circular which is significant in relation to the business of the Group.

SERVICE CONTRACTS

Each of Mr. Cheng Yoong Choong and Mr. Chew Fook Seng has entered into a service contract with the Company on 9 November 2005 under which they agreed to act as executive Directors for a term of three years commencing from 9 November 2005. The appointment may be terminated before such expiry by not less than three months' written notice.

Under these service contracts, Mr. Cheng Yoong Choong receives an annual Director's fee of approximately HK\$150,000. Mr. Chew Fook Seng receives an initial annual salary of RMB1,273,440. The annual salary may, subject to the discretion of the Board and the remuneration committee of the Company, be increased. Mr. Chew Fook Seng will also receive an annual Director's fee of HK\$150,000. Each of the executive Directors will also be entitled to a discretionary bonus as may be decided by the remuneration committee. The amount of the annual salary increment and the bonus payable under such service contracts are at the discretion of the board of Directors and the remuneration committee, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the board of Directors in relation to him.

Tan Sri Cheng Heng Jem has signed a letter of appointment dated 9 November 2005 with the Company under which he agreed to act as the non-executive Director for a period of three years commencing from 9 November 2005. The appointment may be terminated before such expiry by not less than three months' written notice. The initial annual Director's fee for the non-executive Director is HK\$150,000.

Each of Mr. Fong Ching, Eddy, Mr. Studer Werner Josef, Mr. Ko Tak Fai, Desmond has signed a letter of appointment dated 9 November 2005 with the Company under which they agreed to act as independent non-executive Directors for a period of one year and shall continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the appointment letters. The initial annual Director's fee for each independent non-executive Director is HK\$150,000.

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and directors of the Company’s subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules, except for the interests held by Tan Sri Cheng Heng Jem in LDHB which owns 11 department stores in the PRC. These 11 excluded department stores are managed by the Group.

NO MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2005 (being the date to which the latest published audited financial statements of the Group were made up).

EXPERT

- (a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

Name	Qualifications
Somerley Limited	A corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders

- (b) Somerley does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Somerley does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Company were made up.

- (d) Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (e) The letter and recommendation given by Somerley are given as of the date of this circular for incorporation herein.

LITIGATION

No member of the Group is at present engaged in any litigation or arbitration of material importance to the Group and no litigation or claim of material importance to the Group is known to the Directors or the Company to be pending or threatened by or against any member of the Group.

MISCELLANEOUS

- (a) The English text of this circular shall prevail over the Chinese text.
- (b) The registered office of the Company is situated at c/o M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.
- (c) The head office and principal place of business of the Company is situated at 9th Floor, Parkson Plaza, No.101 Fuxingmennei Avenue, Xicheng District, Beijing 100031, PRC.
- (d) The principal place of business of the Company in Hong Kong is situated at Suite 1316, Prince's Building, 10 Chater Road, Central, Hong Kong.
- (e) The Hong Kong share registrar and transfer office of the Company is Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (f) The secretary of the Company is Ms. Seng Sze Ka Mee, Natalia, who is a Fellow of The Institute of Chartered Secretaries and Administrators (FCIS), The Hong Kong Institute of Chartered Secretaries (FCS), and The Hong Kong Institute of Directors (FHKIoD).
- (g) The qualified accountant of the Company is Mr. Wong Kang Yean Clarence, who is a registered member of the Association of Chartered Certified Accountants and a chartered accountant with the Malaysian Institute of Accountants.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Simmons & Simmons at 35th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including 1 July 2006:

- (a) the Sale and Purchase Agreements,
- (b) the Replacement Agreement;
- (c) the service contracts and letters of appointments referred to in the section headed "Service Contracts";
- (d) the memorandum and articles of association of the Company;
- (e) the letter from the Independent Board Committee, the text of which is set out on page 18 of this circular;
- (f) the letter from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 32 of this circular;
- (g) the written consent referred to under the paragraph headed "Expert" in this appendix; and
- (h) the written approval of PRG Corporation dated 26 May 2006 approving the Acquisition.