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PARKSON 百盛
PARKSON RETAIL GROUP LIMITED
百盛商業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 3368)

**DISCLOSEABLE TRANSACTION:
ENTERING INTO A SUPPLEMENTAL LEASE AGREEMENT
IN RESPECT OF THE PROPERTIES IN XI'AN CITY, THE PRC**

THE SUPPLEMENTAL LEASE AGREEMENT

On 23 December 2020, the Tenant (an indirect wholly-owned subsidiary of the Company) and the Landlord entered into a Supplemental Lease Agreement in respect of the Properties located in Xi'an City, the PRC. Prior to entering into the Supplemental Lease Agreement, the Tenant had been occupying the First Property and the Second Property as tenant for its retail business since 2006 and 2011 respectively pursuant to the Previous Lease Agreements.

Pursuant to IFRS 16, the entering into of the Supplemental Lease Agreement as tenant will require the Group to recognise the Properties as the right-of-use assets in which the amount was approximately RMB121,154,000 calculated with reference to the present value of the rental payments as discounted using a discount rate which is equivalent to the Company's incremental borrowing rate during the entire Term of the Supplemental Lease Agreement, thus the entering into of the Supplemental Lease Agreement and the transaction contemplated thereunder will be regarded as an acquisition of assets by the Group.

IMPLICATIONS UNDER THE LISTING RULES

The transaction contemplated under the Supplemental Lease Agreement is regarded as an acquisition of assets under the Listing Rules. On the basis of the acquisition of right-of-use assets under the Supplemental Lease Agreement, the amount recognised by the Group pursuant to IFRS 16 is approximately RMB121,154,000.

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

1. INTRODUCTION

The Board is pleased to announce that on 23 December 2020, the Tenant and the Landlord entered into the Supplemental Lease Agreement in respect of the Properties. A summary of the principal terms of the Supplemental Lease Agreement and the relevant information is set out below.

2. SUPPLEMENTAL LEASE AGREEMENT

Date : 23 December 2020

Parties : Tenant: Xi'an Lucky King Parkson Plaza Co., Ltd.* (西安立豐百盛廣場有限公司), an indirect wholly-owned subsidiary of the Company

Landlord: Lucky King (Xi'an) Real Estate Development Co., Ltd.* (立豐(西安)房地產開發有限公司)

Relevant premises : The relevant parts on (i) the second to fifth floors of the Southern District and (ii) the second to fifth floors of the Northern District of Lucky King International Shopping Mall, No. 59 Jinhua South Road, Beilin District, Xi'an City* (西安市碑林区金花南路59号的立丰国际购物广场 (i) 南区第二层至第五层部分物业及 (ii) 北区第二层至第五层部分物业)

Total gross area : Approximately 36,016.06 sq. m

Term : 15 years commencing from 24 April 2021 and expiring on 23 April 2036

Use : Operation of department stores (mainly) (including gold jewellery, accessories, computers, mobile phones, watches and glasses, stationery, books and audio-visual products, medicines, electrical appliances, clothing, cosmetics, toys, food and groceries, tobacco and liquor, health supplements, etc.); service projects including Chinese and Western dining, films and television, entertainment, bars, cafes, tea houses, Chinese and Western pastries, photography, colour printing and expansion, beauty and hair salons, wedding services, business activity centres, etc.; setting up of offices, warehouses and other commercial projects within the scope of business operation of the Tenant.

Rental : The total rental payable per year under the Supplemental Lease Agreement is the Guaranteed Rental or the Percentage Rental, whichever amount is higher.

The rental shall be paid by the Tenant to the Landlord on a monthly basis. For the Guaranteed Rental, rental payable shall be RMB16 million per year. For the Percentage Rental, rental payable shall be calculated by the Tenant according to the relevant audited financial statements for the year after the end of each financial year, and the Tenant shall pay any excess rental if the amount of the Percentage Rental is higher than the Guaranteed Rental paid for the same period. The total rental payable shall not exceed an annual cap of RMB50 million.

- Other fees : The property management and central air-conditioning fees payable shall be RMB15 per sq. m per month, which shall be paid by the Tenant to the Landlord on a monthly basis.
- Deposit : The Tenant shall pay to the Landlord a deposit of RMB80 million within three (3) calendar days from the effective date of the Supplemental Lease Agreement. Such deposit in full, together with an 8% of fund possession cost thereof shall be paid to the Tenant by the Landlord on the day after the fifth anniversary of the Deposit Payment Date.
- Property rights and management rights : The Landlord is currently looking for a third party to invest in or purchase the Properties and a mall operated by the Landlord (the “**Property Project**”). The Property Project, if materialised during the Term,
- (a) if such third party consents to the performance of the Supplemental Lease Agreement by the Landlord and granting of the management rights of the Properties to the Landlord, both parties shall continue to perform the Supplemental Lease Agreement;
 - (b) in the case of failure to obtain the consent of such third party on the performance of the Supplemental Lease Agreement by the Landlord, the Supplemental Lease Agreement shall be terminated;
 - (c) in the case of failure to obtain the consent of such third party on the granting of the management rights of the Properties to the Landlord, the Landlord shall notify the Tenant of such failure by giving a 6-month prior written notice and provide the Tenant any documentary proof(s) in relation to such failure; the Supplemental Lease Agreement and all supplemental agreements in relation thereto shall be terminated on the day following the expiration of a period of six (6) months after the receipt of such written notice and documentary proof(s).

If the total consideration of the Property Project is less than RMB500 million, the Tenant shall have the right of first refusal to invest or purchase the Property Project.

3. BASIS FOR DETERMINATION OF THE RENTALS AND OTHER INFORMATION

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

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

4. INFORMATION ON THE PARTIES

4.1. The Group and the Tenant

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

The Tenant is an indirect wholly-owned subsidiary of the Company mainly participating in retail business.

4.2. The Landlord

The Landlord is a company established in the PRC whose scope of business mainly includes development of real estate, leasing of self-owned housing and provision of relevant services packages, parking services, car rental services and property management services.

To the best knowledge and belief of the Directors, and having made all reasonable enquiries, the shareholding of the Landlord is as follows:

Shareholders	Shareholding Percentage
Xi'an Lucky King Enterprise Development Investment (Group) Co., Ltd.* (西安立豐企業發展投資(集團)有限公司) (“ Lucky King Enterprise ”)	60%
Yan'an Jinshengdu Trade and Industry Co., Ltd.* (延安金聖都工貿有限責任公司) (“ Yan'an Jinshengdu ”)	20%
Yang Dapeng (楊大鵬)	20%
Total	<u><u>100%</u></u>

Based on the information provided by the Landlord, Lucky King Enterprise is 93.62% owned by Yan Ming (顏明) and 6.38% owned by Wang Xuchun (王緒春), while Yan'an Jinshengdu is wholly-owned by Zuo Linzhong (左林忠).

The Landlord and its ultimate owner(s) are third parties independent of, and not connected with, the Company and its connected persons (as defined under the Listing Rules).

5. REASONS AND BENEFITS FOR ENTERING INTO THE SUPPLEMENTAL LEASE AGREEMENT

The Tenant is the existing tenant of the Properties under the Previous Lease Agreements. The Group has been carrying out retail business at the First Property since 2006, and later at the Second Property since 2011. The operation at the Properties has brought stable revenue to the Group during the past years. The Supplemental Lease Agreement, with a term of 15 years which shall expire on 23 April 2036, allows the continuity of the Group's retail operation at a place which is familiar to the Group's customers for long term. The Board believes that the lease will have a positive impact on the future development of the Company.

The Board believes that the terms of the Supplemental Lease Agreement are fair and reasonable, and also having taken into account the above reasons and benefits, the Board is of the view that the lease is in the interests of the Company and its shareholders as a whole.

6. IMPLICATIONS UNDER THE LISTING RULES

6.1. Acquisition of assets by the Company

Pursuant to IFRS 16, the entering into of the Supplemental Lease Agreement as a tenant will require the Group to recognise the Properties as the right-of-use assets, thus the entering into of the Supplemental Lease Agreement and the transaction contemplated thereunder will be regarded as an acquisition of assets by the Group under the Listing Rules.

6.2. Discloseable transaction

The transaction contemplated under the Supplemental Lease Agreement is regarded as an acquisition of assets under the Listing Rules. On the basis of the acquisition of right-of-use assets under the Supplemental Lease Agreement, the amount recognised by the Group pursuant to IFRS 16 is approximately RMB121,154,000.

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

7. DEFINITIONS

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

“Board”	means the board of Directors.
“Company”	means Parkson Retail Group Limited (百盛商業集團有限公司), a company incorporated in the Cayman Islands.
“Deposit Payment Date”	means the date on which the Tenant shall pay a deposit of RMB80 million to the Landlord, i.e. within three (3) calendar days from the effective date of the Supplemental Lease Agreement.
“Directors”	means the directors of the Company.
“First Property”	means the relevant parts on the second to fifth floors of the Southern District of Lucky King International Shopping Mall, No. 59 Jinhua South Road, Beilin District, Xi’an City* (西安市碑林區金花南路59號的立豐國際購物廣場南區第二層至第五層部分物業).
“Group”	means the Company and its subsidiaries.
“Guaranteed Rental”	means the rental that may be payable by the Tenant to the Landlord at a fixed rate of RMB16 million during the year in accordance with the Supplemental Lease Agreement.
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC.

“IFRS 16”	means the “International Financial Reporting Standard 16 – Leases” issued by the International Accounting Standards Board, sets out the principles for the recognition, measurement, presentation and disclosure of leases.
“Landlord”	means Lucky King (Xi’an) Real Estate Development Co., Ltd.* (立豐(西安)房地產開發有限公司), a company established in the PRC.
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
“Percentage Rental”	means the rental that may be payable by the Tenant to the Landlord during the year, calculated in accordance with the Supplemental Lease Agreement, being 70% of the Total Profit Before Tax received by the Tenant if the amount of the Total Profit Before Tax equals to or less than RMB11 million; or in the case of the amount of the Total Profit Before Tax exceeding RMB11 million, being RMB7 million plus 50% of the Total Profit Before Tax after deducting RMB11 million.
“PRC”	means the People’s Republic of China and, for the purposes of this announcement only, excludes Hong Kong, Macau Special Administrative Region and Taiwan.

“Previous Lease Agreements”	means collectively, the lease agreements in respect of the Properties entered into between the Landlord as landlord and the Tenant as tenant, being (i) the lease agreement dated 24 April 2006 in respect of the First Property (“ Lease Agreement ”); (ii) the supplemental agreement to the Lease Agreement dated 12 March 2011 in respect of the Second Property (the “ First Supplemental Agreement ”); (iii) the supplemental terms to the First Supplemental Agreement dated 14 May 2012 in respect of the additional rental area of the Second Property; (iv) the supplemental agreement to the Lease Agreement dated 15 November 2019 in respect of the payment of excess rental under the Lease Agreement; and (v) the supplemental agreement to the Lease Agreement dated 15 November 2019 in respect of the property management and central air-conditioning fees of the Properties.
“Properties”	means the First Property and the Second Property.
“RMB”	means Renminbi, the lawful currency of the PRC.
“Second Property”	means the relevant parts on the second to fifth floors of the Northern District of Lucky King International Shopping Mall, No. 59 Jinhua South Road, Beilin District, Xi’an City* (西安市碑林區金花南路59號的立豐國際購物廣場北區第二層至第五層部分物業).
“sq. m”	means square metres.
“Supplemental Lease Agreement”	means the Supplemental Lease Agreement in respect of the Properties entered into between the Landlord and the Tenant dated 23 December 2020.
“Term”	means the term of the Supplemental Lease Agreement, being 15 years commencing from 24 April 2021 and expiring on 23 April 2036.

“Tenant”	means Xi’an Lucky King Parkson Plaza Co., Ltd.* (西安立豐百盛廣場有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company.
“Total Profit Before Tax”	means the total amount of profit before tax derived from business operations at the Properties received by the Tenant during the year, as provided in the income statement of the Tenant’s audited financial statements for the same year.

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

23 December 2020

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

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